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THE

TRADE OF BANKING

IN

ENGLAND:

*Embracing the Substance of the Evidence taken before the
Secret Committee of the House of Commons,*

DIGESTED AND ARRANGED UNDER APPROPRIATE HEADS.

TOGETHER WITH

A SUMMARY OF THE LAW

APPLICABLE TO

THE BANK OF ENGLAND, TO PRIVATE BANKS OF ISSUE,
AND JOINT-STOCK BANKING COMPANIES.

TO WHICH ARE ADDED

AN APPENDIX AND INDEX.

By MICHAEL J. QUIN, Esq.

OF LINCOLN'S INN, BARRISTER-AT-LAW.

LONDON:

BUTTERWORTH, 7, FLEET STREET;
MURRAY, ALBEMARLE STREET; RIDGWAY, PICCADILLY
AND RICHARDSON, ROYAL EXCHANGE.

1833.

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IS,

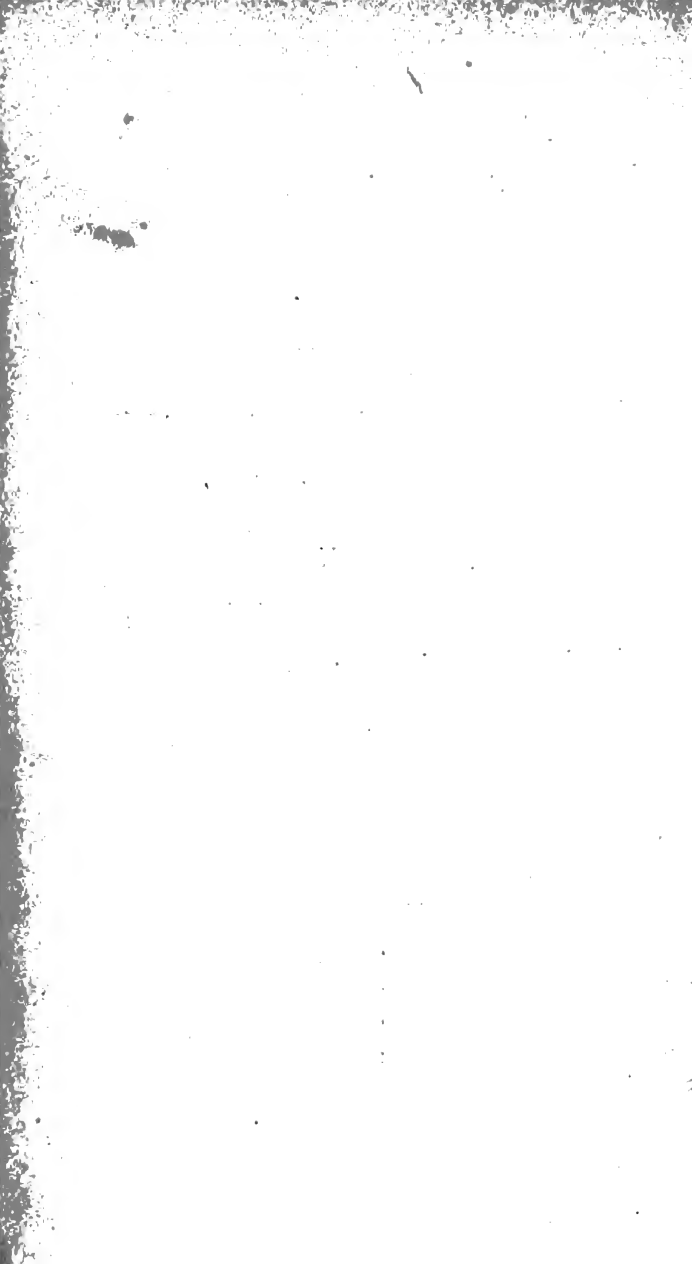
WITH HIS PERMISSION,

AND WITH SENTIMENTS OF UNFEIGNED GRATITUDE FOR
SEVERAL TOKENS OF KINDNESS,

MOST RESPECTFULLY DEDICATED

BY

THE AUTHOR.



PREFACE.

I HAVE endeavoured in the following pages to present, in the first place, a general view of the origin, privileges, and functions of the Bank of England, of the mode in which its business is conducted, and of the character which it has acquired amongst those persons in London, who, from their own experience, are peculiarly competent to bear testimony to the true nature of its operations. I have then proceeded to treat of its Branch Banks recently established in different parts of the country, collecting from the evidence laid before the Committee of the House of Commons such information as might enable the Public to judge of the value of those institutions. Considering the Bank and its Branches, then, in one point of view, I have traced out its actual condition as to capital, liabilities, and annual profits, from the accounts which were rendered to the Committee. As no similar returns were ever before communicated by the Bank, the real state of that corporation can

now be examined, for the first time, upon the faith of documents of an authentic description, and in which every thing connected with the concerns of the Company is disclosed without reserve.

Decided differences of opinion prevailed amongst several of the witnesses who appeared before the Committee, with respect to the fluctuations which from time to time have taken place in the currency. I found it necessary, therefore, to attempt to clear away the obscurities by which that subject has been heretofore surrounded; and I hope, that with the assistance of the practical knowledge relating to it which abounds in the minutes of evidence, I have succeeded in simplifying a topic which theorists had previously made almost unintelligible. In order to prepare the reader for this discussion, I have touched on the nature of the foreign exchanges—a theme also hitherto fruitful of perplexity to all persons who have not an immediate interest in their variations, and a practical acquaintance with the causes that elevate or depress them in the course of trade. If the reader go with me through these explanations, I trust that he will then be enabled to judge how far the management of the Bank is chargeable with producing contractions or enlargements of the circulation to the prejudice of the community, and whether any system of banking can be devised by

which such alternations can for the future be prevented.

The lessons afforded to the country by the catastrophe of 1825 are next alluded to, as well as the extent to which the Bank has profited by those serious and providential admonitions. The whole of the objections which have been made to its system of management, and the answer given to those objections on the part of the Bank, are then exhibited, in order that the reader may decide for himself between conflicting opinions, arguments, and statements of fact, on which side the truth is probably to be found.

As the inquiry now pending in Parliament extends to Private and Joint-stock Banks, the evidence with respect to those establishments is condensed in successive chapters; and they will, perhaps, be found, in connexion with those which precede them, to disclose a more complete view of the Banking trade in this country than it was possible for any one writer to collect, without access to the valuable evidence lately published by order of the House of Commons.

The improvements proposed by several witnesses with respect to the Banking system are next drawn out from the mass of questions and answers, and I have presumed to conclude the first part of this work with such observations

as occurred to me upon a careful and impartial consideration of the whole subject.¹

References having been made in many passages of the evidence to the present state of the Law upon several points connected with Banking, I deemed it convenient to add, in a Second Part, a Summary of all the more important statutes which relate either to the Bank of England, to private Banks of Issue, or Joint-stock Banking Companies.

In the Appendix will be found an account of the principal foreign banks, and of those of Ireland and Scotland; and also a series of useful tables compiled, at my request, by Mr. HEPPEL, one of the most accurate accountants in the city of London. I wish I were at liberty to mention the names of two other gentlemen, of great commercial experience and high character, who have done me the favour to revise this volume in its progress through the press. If upon the subject of which it treats it have any pretension to authority, I owe it entirely to their suggestions, and to the kind vigilance with which they have preserved me from falling into material errors.

M. J. Q.

10, *Gray's Inn Place*,
Jan. 28, 1833.

¹ Chapter XXIX.

Names of the Members of the Committee appointed, on the 22d of March, 1832, to Inquire into the Expediency of Renewing the Charter of the Bank of England, and into the System on which Banks of Issue in England and Wales are conducted.

Lord Viscount ALTHORP, *Chairman.*

Sir ROBERT PEEL, Bart.	Mr. IRVING.
Lord JOHN RUSSELL.	Mr. WARBURTON.
Mr. GOULBURN.	Mr. GEORGE PHILIPS.
Sir JAMES GRAHAM, Bart.	Mr. JAMES MORRISON.
Mr. HERRIES.	Lord Viscount MORPETH.
Mr. POULETT THOMSON.	Mr. HEYWOOD.
Mr. COURTENAY.	Lord Viscount EBRINGTON.
Colonel MABERLEY.	Mr. LAWLEY.
Sir HENRY PARNELL, Bart.	Sir JOHN WROTTESLEY, Bart.
Mr. VERNON SMITH.	Lord CAVENDISH.
Mr. JOHN SMITH.	Mr. Alderman WOOD.
Mr. ROBERTS.	Mr. STRUTT.
Sir MATHEW RIDLEY, Bart.	Mr. BONHAM CARTER.
Mr. ATTWOOD.	Mr. E. J. STANLEY.
Sir JOHN NEWPORT, Bart.	Mr. Alderman THOMPSON.
Mr. BARING.	

Names and Designations of the Witnesses who appeared before the Committee.

ATTWOOD, THOMAS, Esq. Banker at Birmingham.

BECKETT, WILLIAM, Esq. Banker at Leeds.

BURGESS, HENRY, Esq. Secretary to the Committee of Country Bankers.

BURT, JAMES, Esq. one of the Directors of the Joint-Stock Bank at Manchester.

DYER, JOSEPH CHESBOROUGH, Esq. one of the Directors of the same establishment.

EASTHOPE, JOHN, Esq. Stock-Broker in the City of London.

FORSTER, CHARLES SMITH, Esq. Banker at Walsall.

GLYN, GEORGE CARR, Esq. Banker in London.

GROTE, GEORGE, Esq. Banker in London.

GURNEY, SAMUEL, Esq. Bill-Broker in London.

HARMAN, JEREMIAH, Esq. Director of the Bank of England for many years previous to 1827.

LOYD, SAMUEL JONES, Esq. Banker in London and in Manchester.

NORMAN, GEORGE WARDE, Esq. Director of the Bank of England.

PALMER, JOHN HORSLEY, Esq. Governor of the Bank of England.

RICHARDS, JOHN BAKER, Esq. Deputy-Governor of the Bank of England from April 1824 to April 1826, and Governor from April 1826 to April 1828.

ROTHSCHILD, N. M. Esq.

SMITH, JOHN BENJAMIN, Esq. one of the Directors of the Joint-Stock Bank at Manchester.

STUCKEY, VINCENT, Esq. Banker in the Counties of Somerset and Gloucester.

TOOKE, THOMAS, Esq. London Merchant.

TROTTER, SIR COUTTS, Bart. London Banker.

WARD, WILLIAM, Esq. Director of the Bank of England.

WILKINS, JOHN PARRY, Esq. Banker in Wales.

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ERRATA.

Page 32, s. ix. The amounts discounted by the branch banks should have been stated as the *average* amounts throughout the periods referred to.

Page 39, line 6, *for* 25,000*l.* *read* 35,000*l.*

Page 78, at bottom. The abstraction of bullion from the Bank, from October 1824 to November 1825, should have been stated at eight and a half millions, leaving at the latter period about three millions in hand. After that came the drain by the country bankers, which reduced the balance in December 1825 to one million.

Page 114, line 3, *for* "deposits" *read* "securities."

Page 206, line 16, *for* "consequences" *read* "consequence;" and *dele* "the" in line 17.

Page 208, line 2 from bottom, *dele* "But."

Page 209, line 5, *dele* "however."

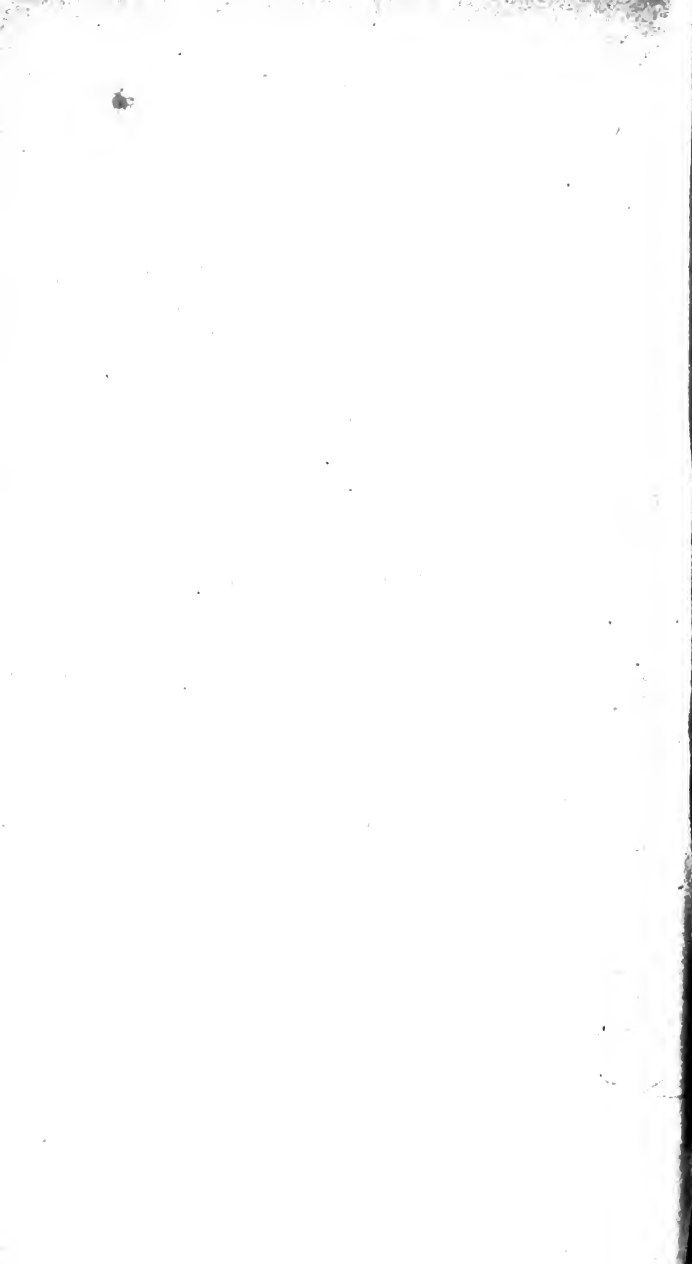
Page 213, line 3 from bottom, *for* "circulation" *read* "liabilities."

Page 329, line 6, *after* "one-third," *add* "of its total liabilities, circulation, and deposits."

Page 115, line 17 from bottom, *for* "sixty-two," *read* "fifty-nine."

PART I

TRADE OF BANKING.



BANK OF ENGLAND.

CHAPTER I.

ORIGIN, PRIVILEGES, AND FUNCTIONS OF THE BANK OF ENGLAND—ITS POWER WITH RESPECT TO PRIVATE BANKERS.

I. ORIGIN.

CONSIDERABLE embarrassment having been experienced by the Government, in its endeavours to meet the exigencies of the public service soon after the accomplishment of the revolution of 1688, Mr. William Patterson,¹ a Scotch gentleman of eminent ability and enterprise, proposed to the Treasury to raise, for its accommodation, upon certain terms,² a voluntary loan of one million two hundred thousand pounds. His project having been accepted, the loan was realised; and under the authority of the 5th and 6th W. and M. c. 20, 1694. a charter was granted to the subscribers, by virtue of which they were incorporated under the denomination of "The Governor and Company of the Bank of England." Under the provisions of the same act, the sum thus raised was advanced to Government at a specified rate of

¹ M'Culloch's Commercial Dictionary—Art. "Bank of England."

² Subsequently comprehended in the charter.—See Appendix to this volume, A.

Origin. interest; in addition to which, a sum of four thousand pounds per annum was allowed to the Bank, for the management of the public debt and the payment of the dividends.

II. PRIVILEGES.

Privileges. Upon the security of the capital thus lent to the state, the Bank were authorised by their charter to issue notes, convertible on demand into gold. The charter, which fully specified the powers of the corporation, and the mode of managing their affairs, was redeemable upon the expiration of twelve months' notice, to be given after the 1st of August, 1705. The period of
 1697. notice was subsequently extended to the 1st of August,
 1708. 1710,¹ and next to the 1st of August, 1732.² A further sum of 400,000*l.* was advanced by the Bank to the Government; and it was provided,³ that during the continuance of the corporation, it should not be lawful for any body politic, other than the Bank of England, or for more than six persons united in partnership, in England, to borrow, owe, or take up any sum of money, on their notes payable at demand, or at any less time than six months from the borrowing thereof.
 1713 to 1816. Under the authority of various other acts,⁴ more or

¹ 8 and 9 W. 3, 20. ² 7 Ann, c. 7. ³ 7 Ann, c. 7. ⁴ 12 Ann, stat. 1, c. 11; 3 G. 1, c. 8; 8 G. 1, c. 21; 1 G. 2, c. 8; 2 G. 2, c. 3; 15 G. 2, c. 13; 19 G. 2, c. 6; 4 G. 3, c. 25; 21 G. 3, c. 60; 39 and 40 G. 3, c. 28; 48 G. 3, c. 4; and 56 G. 3, c. 96. See also the loan acts, and those relating to the public securities; the public balances in the hands of the Bank; restriction and resumption of cash payments; restraining the negotiation of promissory notes under a limited sum; the circulation of tokens; the protection of the property of the Bank; the punishment of persons guilty of forgery, and of counterfeiting tokens; those regulating the mode of transacting business with the Bank, in relation to accounts to be opened there for greater security. The mere titles of these various acts extend to about 200 pages of the general collection of statutes.

less connected with the Bank, the charter has been from time to time extended or renewed, and the rights and privileges of the corporation have been secured in very strong terms. Privileges.

The Bank has been recently further authorised to establish branch banks¹ in the country; and although banking companies consisting of more than six partners may now² be formed, upon the joint-stock principle, yet in deference to the privileges of the Bank of England, such companies have been prohibited from issuing notes payable on demand in London, or within sixty-five miles of it,³ and from drawing bills on London, or making notes payable there, for less than fifty pounds.⁴ 1,826.

The notes of the Bank of England are, moreover, received exclusively by Government in payment of the revenue.⁵ In the Bank also are kept the deposits of Government, which seldom fluctuate, in time of peace, below four millions upon the average of the whole year. Norman, 2,581. Palmer, 344.

¹ 7 G. 4, c. 46, s. 15.

² 7 G. 4, c. 46.

³ But country banks, consisting of a number of partners under *six*, though they cannot *issue* notes in London, or within sixty-five miles of it, may legally make them *payable* there.—Norman, 2,580. See "Summary of Law," *post*.

⁴ The latter part of this rule, however, has been relaxed in practice. Mr. Stuckey says, 947, that the cash notes of his joint-stock company in Somersetshire are *payable* on demand, not only in the country, but also in London. And being asked, 952, "Is not yours the only joint-stock company that makes its notes payable in London?" he answers, "I am not aware that it is. Many bankers do not make their notes payable in London at all. I took the opinion of Government and of the Bank of England on the subject, and was told by both of them that they had no objection, and it was accordingly done; but the law should be made clear." The rule, however, against a country bank having more than six partners *drawing* any bill upon London for less than fifty pounds still prevails.—See "Summary of Law," *post*.

⁵ See "Summary of Law."

III. FUNCTIONS.

Functions. The principal functions which it is the ordinary duty of the Bank to perform, consist in its furnishing the public with paper money, convertible on demand into coin and bullion, and in affording a place of safe deposit for the money of the Government, as well as for that of individuals who may prefer it to a private bank.

Palmer, 181. It is not deemed desirable that, in ordinary times, the Bank of England should systematically regulate the amount of its issues, through commercial discounts in London. There are usually in the possession of the bankers of London, and other individuals, large deposits waiting for employment, with which it would not become the Bank to interfere. But upon occasions when there is a scarcity of money, or when a season of commercial alarm occurs, it is then the duty of the Bank to step forward to the aid of public and private credit, by discounting commercial bills. The Bank, for this purpose, occasionally fix, by official notice, a public rate of interest, at which they are willing to receive approved bills of a given description. Being the only body issuing money *ad libitum*, within the sphere of the circulation of such bills, the Bank define the maximum rate of interest, by such notice, during its continuance. The consequence is, that all persons having money to employ, must necessarily offer to lend it under that rate, unless, by the pressure of the moment, the market rate of interest advance to that fixed by the Bank.

But in ordinary times, when there is no such scarcity

of money, or when no commercial discredit exists, if the Bank were to found their issue principally upon commercial bills, they would be under the necessity of entering into competition with all other parties in the purchase of bills of exchange, at the market rate of interest. Such competition would be justly deemed objectionable. All banking business is better done by private bankers than by public bodies. More facilities are afforded in the way of credit by the former, than can be offered under the existing regulations by the Bank Directors, who give no credit to any one, and exact an adherence to forms, which are not required by private bankers. Functions.
Palmer, 477.
478.

It is admitted, that during the greater part of the war, when the interest demandable by the Bank was limited to five per cent, while the market rate of interest was frequently above that amount, the Bank discounted commercial paper largely, and even to excess.¹ 191-197. That, however, could only have been done under the restriction act; for if the Bank had been obliged to pay in specie, they could not have discounted under the prevailing rate. The Bank can never issue upon bills below the market rate, without leading to excess.

No inflexible rule indeed exists, that the Bank shall not, even in ordinary times, afford accommodation to the commercial classes. But the Bank do not, in general, found their issue upon commercial discounts. According to their present principles of management, they extend their assistance in that way only when any serious exigency arises. Being required to provide a requisite supply of money, for the average circulation of the sphere in which they act, it is also their duty to uphold public 198.

¹ The Bank had then at one period 23,000,000*l.* in discounts.—*Norman*, 2,438.

Functions. and private credit when called upon ; and when so appealed to, it is then that the resources of a great body, like the Bank of England, may be rendered available to the commercial stability of the country.

In the latter part of the year 1825, when the great panic occurred, the discounts of the Bank rose to about fifteen millions : the interest was raised from four to five per cent, with a view to limit the issue, but it did not produce the desired effect. On other occasions it might be more successful ; and it seems much better, when possible, to diminish the issue upon bills by raising the rate of interest, than by capriciously rejecting a portion of the paper that is offered. Mr. Glyn being asked, whether, some years since, the Bank had not refused to discount good paper for respectable merchants who called upon them, answered, that he did not recollect any instance of the Bank of England having sent away paper which a private banker would think it proper to receive. The Bank had rejected paper drawn for accommodation purposes, or for that of keeping up the price of a particular commodity. Such instances had come to his knowledge, and they had been unjustly made the subject of complaint against the Bank. But his general impression was, that with respect to advances made on bills, the Bank uniformly exercised a very wise and liberal discretion. The rate (four per cent) at which they had discounted for several years past, has been, upon the average, higher than the current amount of interest. The result is, that bills usually go to other parties. In practice, the Bank are not at present ordinarily applied to for discounts to any considerable extent.

Norman,
2,809.
Palmer, 634.

Norman,
2,437.
Glyn, 3,062.

3,063.

Lloyd, 3,326.

3,324.

Easthope,
5,957.

IV. POWER OF BANK WITH RESPECT TO PRIVATE BANKERS.

Unquestionably the power would exist on the part of the Bank, of injuring the private banker, if they chose to abuse that power. Their credit is so extensive, that they might probably, by improvident accommodation, drive out any private banker in their immediate neighbourhood. But although they possess that power, they cannot use it upon the principles on which their affairs are now conducted, nor does the exercise of it enter into their contemplation. The East India Company are supposed, by trading, to interfere with private industry. The Bank of England and the East India Company, however, are manifestly different in principle; the latter are traders in competition with private merchants; but the Bank of England do not offer that accommodation which the private banker affords, and therefore they can never obtain that hold upon the private business of the country, which is now possessed by the private banker. The latter, moreover, occasionally enters into transactions which the Bank of England would not undertake; and it is certainly advantageous to the public that some party should embark in them.

Power of
Bank with
respect to
Private
Bankers.
Palmer, 480.

482.

483.

485.

Loyd, 3,317.

3,318.

CHAPTER II.

SUPREME MANAGEMENT OF THE BANK BY THE COURT OF DIRECTORS—CONNEXION BETWEEN THE BANK AND GOVERNMENT—PRACTICAL MANAGEMENT—THE PROPRIETORS—OPINIONS OF THE LONDON BANKERS AND OTHERS AS TO THE GENERAL MANAGEMENT OF THE BANK.

I. SUPREME MANAGEMENT.

THE supreme management of the Bank resides in the whole Court of Directors, any one of whom may originate a new measure. The court meet weekly, when a statement is read to them of the actual position of the Bank, in every department of its securities, bullion and liabilities. The directors have all equal power, and should a majority of them disapprove of the system of management, they might alter it in any way they should think expedient. They are all aware of the state of the accounts, and nothing of any consequence can be done without their full knowledge and concurrence. Eight directors go out, and eight new directors, elected by the Court of Proprietors, come in annually. The system upon which the affairs of the Bank are conducted is of course liable to change, inasmuch as new directors may exercise their individual influence upon it. But in practice it is not found that any prejudicial effect is produced by the mode of

election and change of directors. There is no regular public canvass for a seat in the court: a list of candidates sanctioned by the directors is transmitted to the court of proprietors; eight individuals on that list are recommended by the directors to be elected, and the eight so recommended uniformly come in. It is a rule in the charter (admitted, however, to be a most absurd one), that dissenters, such as Quakers and Jews, amongst whom there are many persons eminently conversant with money transactions on a large scale, should be excluded from the direction of the Bank. There has been no contested election for many years, unless it be considered as such, that one vote was given at the last election for a proprietor whose name was not included in the list of candidates. Before the individuals proposed to be the new directors are nominated, it is the invariable practice to scrutinise their private characters in every point of view; if the result be not perfectly satisfactory, they do not obtain the influence of the Court of Directors.

The qualification of a director is the possession of Bank stock to the amount of 2,000*l*. For many years past the directors have not thought it right to be themselves large holders of Bank stock. It is understood that no director retains more than the amount of his qualification. In the month of May 1816, when a bonus of 2,910,600*l*., being an increase of twenty-five pounds per cent on the capital,¹ was distributed among the proprietors, the directors remained just as they were before — small proprietors of stock.

The directors only are responsible for the manage-

¹ See the Appendix to this volume, B.

ment of the affairs of the Bank. There are certain penalties attaching to their conduct,¹ collectively or individually, upon certain occasions. But they are not responsible, under the charter, to parliament or to the public, for the correct management of the monetary system. So far as the action of the Bank is concerned, the whole security which the public have for the right management of that system, depends upon the discretion of the directors, with these qualifications;—that they are controlled by the obligation of furnishing notes for gold, or gold for notes; that they are necessarily restrained by the custom which prevails, of the affairs of the Bank being communicated from time to time to his Majesty's Government, whose suggestions are always maturely considered; and that they are also, as all men in official situations must be, under the influence of public opinion. If the establishment of a more efficient control were desirable, some new institution, in the nature of the India board of control, might perhaps render them more amenable to the scrutiny of the legislature, the proprietors, and the public.

At the same time it should be observed, that if the mode established for the election of directors be upon a wrong principle, it is even now in the power of the proprietors to change it. It would, however, according to Mr. Grote, be difficult to devise any other mode that would tend to secure the introduction of better individuals. The practice of having what is called a "house list" is very common in many institutions; and that gentleman is of opinion, that the present mode of choosing the directors is better, on the whole, for the public, than

¹ See "Summary of Law."

any other system, by which the mass of proprietors might be enabled to interfere more effectually in the election. The solicitude of responsibility is more keenly felt by the directors towards the public in general, than towards their own proprietors. Although, strictly speaking, they are the sworn servants of their constituents, they conceive that they can hardly perform their duty to the Bank as they ought to do it, without performing a duty also to the country. "It has happened to us," says Mr. Richards, "to feel it our duty to our proprietors to postpone their interests, in order to effect some important good to the public at large, in which their interest might be mixed up; it has not been the practice of the Bank to sacrifice the wishes and the expectations of the public merely to a dry consideration of the interest of the proprietors, because they are so blended, that it is hardly possible to keep them distinct."

Supreme management.

Grote, 4,7

Richards, 5,081.

5,082.

The limitation of the right of election to proprietors of stock exclusively, may, nevertheless, be open to objections; but not, perhaps, to objections which would be sufficient to justify any alterations. The public are certainly entitled to the best security which they can obtain for the management of the currency, if it is to remain under the entire control of the Bank. But it is difficult to say whence that security can be obtained. The idea of electing commissioners from the general body of bankers and merchants, in addition to a person appointed by government, for the purpose of controlling the operations of the directors, has been suggested. But it is doubtful whether such commissioners would be

Loyd, 3,3

3,396.

3,397.

able to give to the management of the currency, any security more satisfactory than that which is afforded by the present system. That system, as it is now practically administered, furnishes due protection to the public interests; and it approaches so nearly to perfection, that if any vital alterations were to take place, they would, perhaps, be found not to be improvements.

Within the last five or six years particularly, considerable changes for the better have taken place in the principles, on which the directors have conducted the circulation of the country. Vacillation may be pernicious, yet it is better that ameliorations should keep pace with the increasing intelligence of the age, than that things should have remained where they were.

With reference to the motives to which the management of the Bank might be deemed subservient, it is possible to conceive that the directors, acting as they do for a great body of proprietors, might occasionally have interests separate from those of the public. The purchase of the dead weight¹ has been supposed to furnish an instance of this description. That, however, was a transaction upon the beneficial effects of which, either to the Bank or to the country, great doubts are entertained. Mr. Loyd thinks that, for both, it was "a very injudicious arrangement." But Mr. Ward, on the contrary, expresses it to have been his opinion at the time, that in consequence of the Bank being possessed of more capital, and a larger share of deposits than they had other opportunities of investing, the dead weight was the "best undertaking in which

¹ See the Appendix to this volume, C.

they could have then engaged.”¹ That surplus capital, and those large deposits, enabled them to make the necessary advances without creating any addition to the currency. And as to the negotiable character of that security, it is asserted, that there is no distinction in principle between it and exchequer bills; the sale of the latter is that of a debt, which is to be repaid; the sale of the former would be that of a government annuity. The dead weight would therefore be a negotiable security if it were offered in the market, though not quite so much so, perhaps, as exchequer bills, on account of these having been so long known. It never has been so offered, but many proposals have been made to the directors for the purchase of it. The advances made by the Bank on the dead weight are, virtually, repaid by the excess of the half-yearly receipts beyond the interest.

Supreme management.
Ward, 1,916.

Norman,
2,402.

2,406.

2,403.

2,402.

2,404

2,406.

The other great sources of investment for their surplus capital and deposits, upon which the directors depend, in addition to the “dead weight,” are exchequer bills and occasionally commercial bills. The Bank, however, hold also city bonds to the amount of half a million; some private securities; and mortgages to the amount of 1,400,000*l*. The average amount of the Government deposits of the Bank has been already stated (4,000,000*l*.). The private deposits of the Bank have increased considerably since 1825, although few facilities² have been granted for that purpose. The

Palmer, 347

347.

349.

318.

319.

¹ The Government had, in connexion with the act of 1819, for the resumption of cash payments, repaid to the Bank a larger sum than the experience of 1820 and 1821 proved to have been necessary; and between 1822 and 1824, when the Bank purchased the dead weight annuity, their deposits had increased from four to eleven millions.—See Ward, 1910, 1911, 1912, 1916, and 1919.

² See the Appendix to this volume, D.

preme ma- total amount of deposits in the Bank, including those
gement. of the Government, was, on the 31st of May last, about
ten millions. The Court of Directors are not in the
lmer, 324. habit of advancing money upon Bank stock; nor do
327. they permit any party to over-draw his account. They
328. allow no interest upon deposits.

The investments are regulated with reference to the
351. whole of the deposits which remain in the Bank, for
353. a term of at least six months. In a period of full cur-
330. rency, two-thirds of the whole of those deposits are
invested in securities, and one-third in bullion. In con-
sequence of the necessity that is imposed upon the
Bank, of holding an amount of bullion sufficient to meet
any exigency that might arise, they do not employ so
331. large a proportion of their deposits as private bankers
would in securities. The greater the increase of private
332. deposits, the larger, therefore, becomes the proportion
of bullion which will continue in the possession of
the Bank, beyond that which would have otherwise
remained there. And it follows, that as deposits are
made in the Bank in coin or in notes, every addition to
350. them diminishes, *pro tanto*, the amount of notes or
359. coin in circulation, and acts, therefore, prejudicially to
the public interests to a certain extent. There is no
doubt that it would be more useful to the commercial
lyn, 3,051. world, if the deposits in the hands of the Bank were
in the hands of private bankers, because a larger pro-
portion of them would then enter into the circulation
of the country. If the present system, with reference
to private deposits in the Bank, were therefore ex-
yn, 3,052. tended, it would prove a very serious evil to the trade
53. 3,054. of London. It is this consideration that has restrained

the Bank from offering the usual facilities for obtaining advances, and over-drawing accounts, which are afforded by private bankers to their customers. The public can, in fact, have no reason for placing deposits with the Bank, except the feeling of additional security. It is the want of confidence in the private bankers, produced by failures, that has caused the great increase of deposits in the Bank since 1825.

Supreme management.

3,057.

Loyd, 3,308.

Mr. Loyd expresses some doubt as to the extent of the public inconvenience, supposed to arise from the largeness of the amount of deposits under the control of the Bank. He thinks, that if private bankers held those deposits, they would employ them in investments, for the sake of making interest upon the money, or in accommodation to their customers; whereas the Bank, he says, "do not retain that money in a dead state in their coffers; they throw it into the money-market, and the money passes from hand to hand, till it gets into some profitable employment." He doubts "whether that does not produce in the end as beneficial a result, as if the money had been directly so employed." The truth seems to be, that by employing in securities only two-thirds of their deposits, the Bank so far gain for the proprietors less profit than would be obtained by a private banker. But the remaining one-third, being issued upon bullion, is equally employed by others as part of the circulating medium of the country. The increased quantity of bullion, whether necessary to be held by the Bank, or forming part of the general currency of the kingdom, is so much abstracted from *universal* circulation, and for the possession of which

3,309.

3,310.

3,311.

3,312.

supreme management. this country makes a certain sacrifice, measured by the value of the interest upon the same.

Mr. Easthope looks upon the whole system of the Bank directors, with reference to the use which they make of their deposits, as highly objectionable. He asserts, that it is a good system for making money; but adds, "it is a most unsafe principle for the Bank to go upon, because they ought to take into account whether, by that employment, they shall be enabled to maintain their credit, should that credit be put to the test by any extraordinary circumstances." In other words, he is of opinion, that the Bank ought to invest no part of their deposits in any other than securities available at a moment's notice. He does not think that exchequer bills would be securities of that description at all periods. "It is," he says, "a matter of fact, that for a few hours (towards the close of 1825) we could not get money for exchequer bills, India bonds, or stock." The only securities which he looks upon as at all seasons available, are commercial bills of exchange, because they expire as a matter of course at a fixed day. If the Bank could employ their money in such securities, there would, of course, be no objection to their so doing; but, upon the whole, according to Mr. Easthope, it would be much better that they should reduce their profits, and increase their share of bullion beyond what it has hitherto been. One of the evils of the present system would be cured by that regulation. The Bank ought to be required to keep the sum total of the securities in their hands as nearly as possible at the same amount; and it would appear

Easthope,
5,819.
5,820.

5,824.

5,818.

5,832.

5,833.

more desirable that they should be engaged in affording those facilities to commerce which depend upon the discounting of bills of exchange, than in making permanent advances to Government, whether in the shape of exchequer bills, or any other mode.

It is a proverbial saying, that if you were going across the Royal Exchange, and asked a Bank director "What o'clock it was?" he would say, "You must excuse my answering that question." But it appears, nevertheless, that where an individual has a right fairly to make inquiry, communications are made to him freely of matters, which relate to the general conduct of the Bank. Many things undoubtedly occur in that establishment, which it would be highly imprudent for them to disclose; but there is no improper reserve. It may be true, that they have fallen occasionally into erroneous principles of management; but they have not had the power of acting upon any fixed system till a late period, subsequent to the year 1825, in consequence of a variety of circumstances that existed prior to that time. As, for instance, from the year 1819 to 1822, the bank had to encounter the preparation for return to cash payments, and next, the conflicting character of the circulation of the country and London, governed, as the country then was, by a small-note circulation. So long as that circulation existed, it rendered the Bank liable to a great sudden demand. In the two last months of the year 1825, the demand upon the Bank was nearly two millions and a half sterling for the support of the country circulation, when the exchanges were nearly at par, which placed the Bank in a peculiar state of difficulty. The whole embarrassment of that period,

Supreme management.
Easthope,
5,838.

Gurney, 3,719.

3,721.

Tooke, 4,072.

Palmer, 270.

271.

272.

upreme ma- with regard to bullion, arose from the magnitude of the
 agement. demand, which was made almost entirely for the purpose
 almer, 273. of upholding the small-note circulation. The holders of
 274. that paper were the lower orders of the people, whose
 fears are extensively acted upon in times of distrust;
 and there having been no exchange for one-pound notes
 but the sovereign, the demand upon the Bank became
 inevitable. At that period the London bankers also
 275. pressed very much for gold, but they served merely as
 the channel through which the supply was sent to the
 country. Since the circulation of the one-pound notes
 283. has been prevented, the occasional excessive demand
 has been obviated.

Whatever mistakes of management the directors may
 rote, 4,750. fall into, their commercial position excludes the idea of
 dishonesty. A director who has the certain knowledge
 of an intention upon the part of the Bank to contract or
 Richards, enlarge their issues, might undoubtedly go upon the
 5,039. Stock Exchange, and enter with an immense and unfair
 advantage into time bargains, if he were disposed so to
 do. But no honourable man would do an act of that
 kind; and if it were known, such a man would not be
 re-elected.

Mr. Smith, of the joint-stock bank at Manchester,
 appears to be of opinion that the directors of the Bank
 of England afford very little accommodation to the mer-
 cantile interests. We have already seen that this opinion
 is also, in some degree, entertained by Mr. Easthope,
 who, moreover, complains of the secret operations to
 which the Bank have occasionally resorted, for the pur-
 pose of preventing the gold from leaving the country,
 which operations have interfered, as he thinks, injuri-

ously with the speculations of private individuals. The operations here alluded to are thus explained by Mr. Horsley Palmer:

Supreme management.

The directors have sent specie abroad on very few occasions, in times of an unfavourable exchange, and chiefly for the purpose of operating directly upon the Paris exchange. Such remittances have been made uniformly in silver, consisting of bullion, different foreign coin, and bar silver. The amount has not in the whole exceeded one million during the last three years. The measure has been effectual for its purpose, and has been of great public benefit in times of an unfavourable exchange. The sending of the silver bullion abroad by the Bank has had a more decisive effect in rectifying the exchanges, than could have been brought about by remittances of private individuals; because the Bank can act upon a more extensive scale than individuals can do at a given moment; and the magnitude of the operation is every thing, in times when the foreign markets may be extremely full of bills upon England. The return for the silver thus exported is obtained in bills of exchange, which are purchased by the Bank agent in the foreign market. An operation of this kind could not, however, be often attempted, even by the Bank, with success. It entirely depends on circumstances.¹ Nor is it to be understood, that the Bank would have recourse to such a measure at all times of an unfavourable exchange. They would not, for instance, send silver abroad, if there were a demand for it in the London market, to the extent required. Whenever a demand exists here at the market

Palmer, 213.

215.

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219.

220.

221.

¹ See Chapter V.

preme management.
almer, 225.

price, to the extent to which the Bank may deem it expedient to sell, there is no occasion for them to export. But whenever there is a deficient capital at home, for the purchase of silver, then it is that the Bank may, with advantage to the country, preserve the gold by the exportation of silver, and by purchasing with it the excess of bills upon England in the foreign market. The operation has been conducted with secrecy, but with the full concurrence of the whole court of directors; and in making such a use of their silver, their sole object has been to protect the gold, which, in times of an unfavourable exchange, has a tendency to leave the country.

II. CONNEXION OF BANK WITH GOVERNMENT.

onnexion
th Govern-
ent.
almer, 658-9.

His Majesty's Government are, in general, fully acquainted with the affairs of the Bank. They have no legal right to that knowledge; but they are from time to time confidentially put in possession of it. It is well understood, that, for several years past, there has been the most unreserved communication with the Government, as to the principles upon which the establishment has been conducted. The Government give opinions respecting the management of the Bank, but they do not interfere with it, or advise in any way with respect to the quantity of gold to be held in reserve. They have called occasionally for information, but it has been more frequently volunteered by the Bank. They possess no control whatever with respect to it, nor have they any means of enforcing any alteration in the system of management; but any suggestions which they might make would undoubtedly be considered with the most grave

attention. Previous to the peace, interference with the Bank did take place, upon the part of the Government, that was injurious to the country. A reasonable influence, properly exercised by the Government, is highly desirable ; but it should not go beyond a regulated extent.

Connexion
with Govern-
ment.
Gurney, 3,759.

3,758.

III. PRACTICAL MANAGEMENT OF THE BANK.

Practically, the governor, or deputy-governor, assisted by a select committee of three directors, conducts the daily business of the Bank, in the intervals between the weekly sittings of the court. The governor, or deputy-governor, is supposed always to be in the house, and no responsible action is taken by the committee without reference to the former. The committee consist of the senior directors of the Bank, who have passed the chair, with the exception of the director immediately succeeding in rotation to the deputy chair. All bills tendered by the public, the London paper alone excepted, are laid before the select committee, and they determine upon those to be discounted. Were any considerable demand, unusual in its character, made upon the Bank, a communication would pass between the committee and the governor, who would take such steps as he might think necessary, with the view of bringing that extra demand before the whole court, if required. The London notes¹ are referred to what is called the Wednesday committee, composed of nine or ten directors, who sit on that day for the purpose. There is no secret committee.

Practical ma-
nagement.
Palmer, 262.
206.

X

263.

264.

207.

210.

203.

¹ That is to say, bills drawn by one London firm upon another, and accepted by that other, payable at a banker's.

practical management.

There is a special committee of treasury, who may suggest any measure it thinks fit to the court; but such measure is perfectly open for discussion and determination afterwards.

almer, 211.

212.

The business transacted by the select committee does not include the purchase of bullion; which is always bought by the governor, who considers that he has no power to refuse the issue of notes for gold bullion tendered to him at the Bank, the supply of a paper currency, founded upon gold, being the main object of the institution. He does not regulate the price of bullion; that has been fixed at 3*l.* 17*s.* 9*d.* for the last three years. It was formerly 3*l.* 17*s.* 6*d.*, which was considered by the Government too low, and they suggested the existing price. The price of silver is regulated by the course of the foreign exchanges.

308.

ippon, Memorandum, p. 25.

When gold coin is demanded from the Bank in large quantities, it may be delivered in bags to almost any amount in the course of a day. But the largest amount that can be paid in one day by about twenty-five clerks, if counted by hand to the public, would be about 50,000*l.* When large sums are applied for by bankers or others, the practice of the tellers is to count twenty-five sovereigns, and put them into one scale, then to count twenty-five more, and put them into the other scale; and if the accuracy of the scales be proved by their balancing, the sum is increased in each scale by counting to two hundred. The balance is again tested, and, if found exact, one of the scales is emptied, and the two hundred sovereigns in the other serve as a weight the whole day for the delivery, without further counting, of sums divisible into two hundred. In this

way, a thousand sovereigns can be delivered in a few minutes ; and upwards of 300,000*l.* were paid to bankers and others on the 14th of May last.¹

Practical management.

IV. THE PROPRIETORS.

No return has been laid before the committee of the number of shares held by each proprietor ; it was offered by the Bank, without, of course, naming the proprietors ; but it seems to have been overlooked. A statement of the number of stockholders, properly classified, would be desirable. A proprietor must hold Bank stock to the amount of five hundred pounds to qualify him to vote. Whatever the right may be, in practice all the proceedings of the court of directors are not subjected to the approval of the court of proprietors. The accounts have never been laid before them. It is presumed that they are aware of the system upon which the management of the Bank is conducted, and that it affords them satisfaction ; since, although demands have been occasionally made for the accounts, they have been rejected by such immense majorities, that there has been no possibility of entertaining the question.

The proprietors.

Palmer, 229.

241.

231.

232.

233.

V. OPINIONS OF LONDON BANKERS, AND OTHERS, AS TO THE GENERAL MANAGEMENT OF THE BANK.

V. The London bankers, generally, appear to be satisfied with the system of management at present pursued by the directors. Great confidence, "quite as much as is required," is placed in the Bank ; under the existing plan, the management of their affairs is allowed

Opinions as to general management.

Sir C. Trotter, 3,188.

3,189.

Gurney, 3,685.

3,696.

¹ One of the days of the ministerial interregnum.

The proprie- to be "very good." During the panic particularly, in
 ors. 1825, the Bank is said to have managed "very well
 Rothschild, indeed." There was a great demand for specie and
 4,901. for discounts; very great speculation, and a great
 number of private banks failing; and the Bank acted
 "in as honest and as conscientious a manner as pos-
 Richards, sible." Steadiness of conduct has always been one of
 4,973. the first principles of the Bank. But that principle has
 been, and ever will be, operated upon by circumstances,
 4,976. of individuals, can control. Derangements will some-
 times arise in the immense operations of this country,
 which will necessarily throw things out of their equi-
 librium. When these unforeseen occurrences come to
 light, it will be found very difficult to apply to them
 the same rigid principle which might serve for ordinary
 occasions.

Palmer, 237. Objections may perhaps have been entertained to
 the management of the Bank, with reference to their
 conduct under the restriction act, and also to the
 amount of Government securities which they hold; but
 238. no tangible complaint has ever been made, that the
 conduct of the Bank was capricious, with reference to
 their affording or withholding accommodation.

CHAPTER III.

ORIGIN OF BRANCH BANKS—THEIR SUPPOSED ADVANTAGES — PLACES WHERE ESTABLISHED — GENERAL PRINCIPLES OF MANAGEMENT—FACILITIES AFFORDED BY THEM TO COUNTRY BANKERS, TO TRADE, AND TO THE CROWN FOR TRANSMISSION OF REVENUE—EXPENSES OF THE BRANCHES, AND THEIR LOSSES BY BAD DEBTS.

I. ORIGIN.

IN consequence of the unsafe foundation upon which many country banks were erected some years ago, Lord Liverpool, with a view to remedy an evil of such magnitude, suggested to the Bank of England the idea of establishing branches of its own in different parts of the kingdom. Though a favourite measure of his, it was not at first favourably received. After the alarming number of failures which occurred in 1825 and 1826 among the country bankers, giving rise to no fewer than seventy-seven¹ commissions of bankrupt within the two years, the Government proposed the abandonment by the Bank of their exclusive privilege as to the number of partners, and suggested that facilities should be given for the formation of joint-stock banking companies in the country.

Branch
banks.
Origin.

Palmer, 465.
466.

App. No. 101.

Harman,
2,351.

¹ The greatest number of bankruptcies known to have occurred before that App. No. 101. period among country bankers, in any one year since 1780, did not exceed twenty; that is the number for the year 1810.

II. SUPPOSED ADVANTAGES.

It occurred to the directors, that, under the circumstances, the plan formerly projected by Lord Liverpool might be attended with advantages both to themselves and the public; that it would afford them facilities for conducting their affairs, give them a great insight into the country part of the business, and be productive of other beneficial consequences. The directors were not, indeed, of opinion that branch banks would ever prove materially profitable to the company; an opinion which experience has shewn to have been well founded. But they conceived that it would be very desirable, if the whole paper currency of the country were to consist of Bank of England notes, with a view to give the circulation greater solidity, and a more equal regulation in expansion and contraction of paper money. Such an extension of the Bank circulation would not be likely to take place without the concurrence of the country bankers. The establishment of branch banks would probably, in time, have the effect, in a great degree, of supplanting the circulation of country paper; but it would be in the power of the private bankers to remove the competition of the branches in the conduct of general banking business, by substituting the Bank paper for their own.¹

In the year 1825 there were, moreover, "innumerable" applications for the establishment of branch banks from "all parts" of the country. But although,

¹ Four country banks have already adopted this measure, at Gloucester, Birmingham, Liverpool, and Hull.

for the reasons stated, the directors expressed to the Government their willingness to comply with those applications, the same policy which induced them to reconsider Lord Liverpool's plan, and even to propose it as their own, compelled them to object to the creation of new competitors in the country, under the title of joint-stock banking companies. The Government rejoined, that they considered the organisation of branch banks as a good thing *per se*, but not adequate to the exigencies of the time. Eventually, it was arranged that both branches of the Bank, and joint-stock companies, should be sanctioned by law.¹

Supposed advantages. Harman, 2,351.

III. PLACES WHERE ESTABLISHED.

Branch banks were accordingly established, in the course of the year 1828, at Gloucester, Manchester, Swansea, Birmingham, Liverpool, Bristol, and Leeds; and, in the following year, at Exeter, Newcastle, Hull, and Norwich. These eleven towns were selected, as being supposed to present the most convenient centres of circulation, with reference to the manufacturing and agricultural districts.

Places where established. App. No. 46.

Palmer, 513.

IV. GENERAL PRINCIPLES OF MANAGEMENT.

The general principles upon which these establishments have been founded appear to be judicious. They permit individuals of supposed credit to open with them discount accounts. They afford every facility to the transmission of money from London to the country; and to those bankers who have proposed (for

General principles of management.

Palmer, 419.

¹ See "Summary of Law," *post*.

general principles of management.

pp. No. 51.

palmer, 460.

Beckett, 1,451.
palmer, 498.

7.

530.

the Bank have made no proposition themselves to the bankers) to withdraw their own paper, they advance the same amount of circulation in coin and bank notes which they were previously stated to possess in their own notes, at three pounds per cent per annum, upon approved bills. The branches issue local notes, and twenty-one day bills. They do not, as matter of course, pay London notes, in order to guard against facilitating theft in London, and obtaining payment at one or more of the branches, and also to obviate the necessity of providing gold for the same notes at different places. They discount at the rate of interest which exists at the Bank in London. They take deposits, from the use of which they receive a slight advantage; but they pay no interest upon them, nor do they allow any person to overdraw his account. They charge no commission upon discounts, but they take a commission upon what is called "agency" business, from those who do not keep an account with the Bank, and for whom they transmit money or bills to London for payment or receipt, or for whom they act as agents in collecting money on bills of exchange in the country.

V. FACILITIES AFFORDED BY THE BRANCHES TO COUNTRY BANKERS.

Facilities to country bankers.
palmer, 449.

450.

No account is opened by the branches with country bankers who continue to circulate their own paper, except for the limited purpose of furnishing them with gold upon the spot. If a private banker possess a branch note, he is of course entitled, as any other holder of

such a note would be, to have it converted into gold at the branch office. This local convenience is in itself an advantage to the country bankers, which they did not before possess. But in addition to this, if a country banker make a deposit at the Bank of England in Bank of England notes, he may receive the amount in gold from the branch without any charge. Thus, the risk and expense of obtaining gold from London are altogether saved to the country banker. He may, if he please, send his bills for discount to London, where he may get them cashed at the lowest market rate of interest; he has then only to order his agent in London to pay into the Bank there any given quantity of Bank paper, and the amount is issued to him by the branch in the form of gold, without any other expense than that of mere postage. This regulation has been established merely as a matter of convenience to the country bankers, at very considerable expense to the Bank of England.

Facilities to country bankers.

Palmer, 454.

451.

452.

458.

456.

VI. FACILITIES TO TRADE.

Any individual who has an account with a branch may, upon the same terms, obtain accommodation in branch notes, which are convertible into gold. If he have no account, he may still obtain the same facilities, paying for them the "agency" commission. The necessary consequence of this system has been, that the moment that branch banks are established in any part of the country, the rate of interest existing in London is immediately opened to all that neighbourhood. There has been a great extension of the branch circulation in Lancashire, without any

Facilities to trade. Beckett, 1,436.

Palmer, 504.

facilities to
ade. 6
corresponding amount of discounts with the branches in Liverpool or Manchester. Very large payments have been made into the Bank in London, for bills transmitted from those districts for discount at the low market rate of interest existing in the metropolis, and for which branch bank notes have been issued in those districts, without any advantage having been derived by the Bank in the rate of interest or discount of such bills. It follows, that to all the branch districts, great advantages must have arisen; since the bills which formerly circulated as money, with an interest of five per cent per annum for their unexpired terms, are now discounted in the London market at two and a half, three, and three and a half per cent, so far affording to the country manufacturers and merchants, money at a cheaper rate than previously existed.

lmer, 505.

VII. FACILITIES TO THE CROWN IN THE TRANSMISSION OF REVENUE.

transmission
revenue.
lmer, 459. Generally speaking, the branches do not issue gold for London notes, except under special circumstances as a matter of convenience. If they receive a
518. bill or draft for payment on any private banker, they demand payment in coin or Bank of England notes. They take, without any difficulty, over their own
516. counter, the notes of any private banker, provided the Bank hold securities from those banks for the payment of them. They accept also, in the same way, the
517. notes of any private banker in the town where they can send them for receipt immediately upon being paid in. But a York note, for instance, payable in London, they would not receive, unless, under a particular regu-

lation, it were tendered in payment of the revenue. Transmission of revenue. Latterly, in compliance with the request of Government, Palmer, 533. the assessed taxes of certain districts have been paid 532. into the branch banks; and the branch has sent an agent occasionally, within twenty or twenty-five miles, to meet the collector, and receive the money from him. The system affords a considerable saving to the public, inasmuch as the revenue has credit for the amount 534. paid in the country, upon the arrival of the mail in town. Before the branches existed, the period of credit depended upon the agreement made between the tax-office and the country banks, in which the local collectors deposited the revenue. The branches receive in 535. discharge of revenue all notes payable in the town where the collection is made; they receive also, for the purposes of revenue only, all notes payable in London, but for the latter, by an arrangement agreed to with the tax-office, credit is not given to the Exchequer until the notes are actually paid. Up to that period, the 544. risk is taken by the Government, who, in case of failure, 545. would follow the private banker for payment: it is not 547. Government money until paid in coin or Bank of England paper.

VIII. EXPENSES OF THE BRANCHES.

The whole expenses of the branch banks are estimated at about thirty-four thousand pounds per annum. Expenses of branches. Palmer, 523. Their present circulation, including five hundred thousand pounds of deposits, amounts to three millions. It is calculated that the total charge of the circulation of 522. the branch banks amounts to two and a half per cent; and that the Bank derive from that circulation a profit

expenses of
 branches.
 mer, 524.

of one-half per cent only; the issue, therefore, does little more than pay its own expenses. The other advantages derived by the Bank from the branch banks arise from deposits and agency, but the extension of the Bank circulation is the main consideration. For

484. the attainment of that object, the branch system is a
 468. safe one; but it is admitted not to be a good system
 467. for banking, which, doubtless, for the commercial in-
 469. terests of the country, is better managed by individuals than by any public body. But circulation ought always, according to Mr. Palmer, to have reference to the foreign exchanges, and therefore to have one centre.

IX. LOSSES OF BRANCHES BY BAD DEBTS.

debts.
 No. 52.

With respect to the actual operation of the branch banks, since their commencement, it appears that the amount of bills discounted by the branch at Exeter within the year 1831, for instance, was eighteen thousand pounds; and that during the whole of the period of its existence there, the branch has made no bad debt. The same remark applies to Gloucester, although the bills discounted there by the branch within the same year amounted to seventy-nine thousand pounds. A debt is set down against Swansea of two thousand five hundred pounds, but it is reported as likely to be recovered. The bills discounted by the branch there within the same year amounted to eighty-four thousand pounds. A recoverable debt of three hundred and forty-nine pounds is charged against Newcastle (down to 1830); the bills discounted by the branch there within the year 1831 having amounted to thirty-eight thousand pounds.

At Manchester, the bad debts of the branch have not amounted on the whole to five hundred pounds, although it discounted bills there within the same year to the amount of one hundred and ninety-four thousand pounds. At Liverpool, where the bills discounted by the branch amounted, within the year 1830, to sixty-three thousand pounds, the bad debts down to that period have not amounted to one hundred and sixty pounds. Within the year 1831, the discounts increased at Liverpool to the sum of three hundred and thirty-six thousand pounds; but no return of bad debt is given with reference to that town for the latter year. The bills discounted by the branch at Birmingham, within the year 1831, amounted to five hundred and ninety thousand pounds; the bad debts since the establishment of the branch are five thousand three hundred and thirty-nine pounds. At Hull, the bills discounted by the branch within the same year amounted to sixty-two thousand pounds; the bad debts during the whole period to two hundred and fifty-one pounds. Within the same year, bills were discounted by the branch at Leeds to the amount of one hundred and twenty-eight thousand pounds, and in the bad debt account for that year, as well as for 1830, the returns are "Nil." For the two preceding years, they amount only to four hundred and sixty-four pounds. The supposed irrecoverable balance against Bristol amounts to ten thousand three hundred and ninety-five pounds, though the bills discounted by the branch there, within the year 1831, did not exceed the sum of one hundred and two thousand pounds. But the case of Norwich is the most unfavourable of all. The bills discounted by the branch there during the three

Bad debts. years 1829, 1830, 1831, did not, on the whole, exceed one hundred and twenty thousand pounds; and yet the apparently certain losses sustained by the bad debts there are stated at the sum of thirty-two thousand and fifty-five pounds. The bad debts thus enumerated are those only which are returned as *not* likely to be recovered; and they amount on the whole to forty-nine thousand six hundred and two pounds.

CHAPTER IV.

CAPITAL OF THE BANK OF ENGLAND—DIVIDENDS—ITS
LIABILITIES AND ASSETS — ANNUAL EXPENSES AND
NET PROFITS.

I. CAPITAL.

WE have already seen¹ that when the Bank of Capital.
England was constituted, in 1694, its original capital,
which was lent to the Government, amounted to
1,200,000*l*. This sum was increased by a new sub- App. No. 33
scription of one million, which was called for in
the year 1697, but was returned to the subscribers
in 1707. Within three years after that period, how-
ever, the capital was increased, by fresh subscrip-
tions, to more than five millions and a half; which,
in the year 1722, were swelled by similar means to
nearly nine millions. New calls were subsequently
made in the years 1742, 1746, and 1782, which raised
the capital of the bank to the sum of 11,642,000*l*.
This amount was preserved, without any variation,
down to the year 1816, when, in consequence of the
profits realised by the Bank, an addition of twenty-five
per cent was made to the stock of the several pro-
prietors; thus enlarging their collective capital to the
sum of 14,553,000*l*., the amount at which it now
remains.

The whole of the capital thus raised from time to App. No. 14

¹ Page 1.

time was lent to the Government, who pay the Bank interest upon it, at the rate of about three per cent, to the amount of 446,502*l.* per annum. It may be considered as so much stock, yielding no pecuniary advantage to the Bank beyond the interest. But inasmuch as the State is a pledged guarantee to the public for the solvency of the Bank to the whole amount of that capital, it must be looked upon as producing a most important benefit to the institution, with reference to its commercial character. Measured by the quantum of that advantage, opinions may vary as to the amount of capital, which it might be material for the Bank to hold in that shape. It should, unquestionably, be large enough to render the notion of insolvency absurd, except the whole fabric of national credit gave way. No inconvenience appears to be felt in any quarter from its present amount.

The real working capital of the Bank consists merely in what is called its "rest," which amounts at present to the sum of 2,880,000*l.* All the other funds which it employs are funds belonging to Government and the public at large, who accept its paper as the most convenient representative of gold, and who, for the sake of greater security, deposit their money in its coffers. The Bank has also dead stock of different kinds, such as the magnificent fabric in which its treasure is kept, and its business carried on; together with the fixtures and furniture therein contained.

II. DIVIDENDS.

The Bank appears, in the year 1790,¹ to have

¹ For the dividends prior to 1790, see Appendix E.

paid a dividend of seven per cent. This amount of dividend it continued during the subsequent fourteen years, and, in addition, presented the proprietors, within that period, with four several bonuses, amounting, in the whole, to 2,619,540*l*. During the two years, 1805 and 1806, the dividend was raised to twelve per cent. It was reduced in 1807 to ten per cent, at which it remained until 1824, when it was further lowered to eight per cent, and so it has continued to the present day.

Dividends.
App. No. 34.

III. LIABILITIES AND ASSETS.

The amount of notes maintained in circulation by the Bank and its branches, on the 29th of February 1832,

Liabilities.
App. No. 13.

was	£18,051,710
Its Government deposits on the same day amounted to	3,198,730
And the private deposits in the Bank and its branches	
to	5,738,430
Total liabilities	£26,988,870

The assets of the Bank on the same day were as follow :

Assets.

Advances on Government securities, including the	
“ dead weight ”	£15,032,820
Other credits	9,166,860
Cash and bullion	5,293,150
Permanent debt due from Government	14,686,800
Total assets	£44,179,630

Assets	£44,179,630
Liabilities	26,988,870

Excess of assets of the Bank over its	
liabilities	£17,190,760

Assets. It will have been seen that there is a difference of 133,800*l.* between the amount of the permanent debt here stated as due from the Government, and the Bank capital due to the proprietors. This difference consists of a sum which the Government owe to the Bank beyond that capital, arising out of some settlement of a very old date, that has not been explained. The total excess of assets is stated by the committee at the sum of 17,433,000*l.* : the difference arises from their having set down the "rest" capital at the sum of 2,880,000*l.*, whereas the chief accountant's return, which, it should be observed, is dated the 29th of February, 1832, states the "rest" at 2,637,760*l.* I am informed that the sum given by the committee was the amount of the "rest" on the 11th of August, 1832, the day on which their report was agreed to.

No allowance is made in the report of the committee for the value of the Bank itself, nor has any detailed estimate of that value been included among the accounts that appear to have been laid before them. Having made inquiries on the subject, I have ascertained that it would not be too much to state the amount of the "rest" at four millions and a half, including therein the value of the Bank buildings and freehold property, the house-furniture, fixtures, and dead-stock of every kind; and then the real excess of the assets of the Bank of England, over and above all its liabilities to the public, will amount, in round numbers, to the sum of NINETEEN MILLIONS STERLING.

IV. EXPENSES AND PROFITS.

Expenses. The ordinary annual expenses of the Bank, including average losses by discounts, and by forgeries

connected with the public funds, may be taken at about 500,000*l.* per annum. Its ordinary *net* profits, after the payment of all expenses of every description, appear to be about 1,200,000*l.* per annum ; out of this sum the dividends arise, which amount to 1,164,235*l.*, leaving, therefore, about 25,000*l.* a-year to be added to the "rest" capital.

Expenses.
App. No. 20.
Profits.
App. No. 21.

Such is the present state of the Bank of England. It is a remarkable proof of the commercial prosperity of that establishment, that it now clears **ANNUALLY** in **NET PROFIT** a sum equal to the whole amount of its **ORIGINAL CAPITAL**.

CHAPTER V.

THE PAR OF EXCHANGE—PAR BETWEEN ENGLAND AND FRANCE—SIGNS OF UNFAVOURABLE AND FAVOURABLE EXCHANGES — EFFECTS UPON THE EXCHANGES OF FOREIGN LOANS, OF THE GENERAL STATE OF TRADE, AND OF THE OPERATIONS OF INDIVIDUALS, SINGLE OR COMBINED.

I. PAR OF EXCHANGE.

Par of exchange. WHEN a bill of exchange for one hundred pounds will purchase both in England and France the same quantity of gold of a certain weight and fineness, then a par, or perfect evenness of exchange, may be said to exist between those two countries. If it be necessary, in order to purchase that quantity of gold in Paris, to add any given sum, five or ten pounds, to the English bill for one hundred, then the exchanges between the two countries are said to be no longer at par, the scale is inclined to the disadvantage of England, and the measure of that disadvantage is the sum added to the bill. On the other hand, a similar depression of the balance is said to take place to the disadvantage of France, if the operation be in the reverse—that is, if, instead of any addition being made to the English bill, an addition be made to the quantity of the gold, in order to purchase that bill in the Paris market. Then

mer, 133.

the turn of the scale is supposed to be *pro tanto* in favour of England. Par of exchange.

This explanation of the exchange must be taken, however, in connexion with certain other circumstances. It should always be recollected, that the standard coinage of France, and, indeed, of the whole continent, is silver,¹ whereas that of England is gold. It is necessary for the Bank to retain in its coffers a certain proportion of gold bullion; and for that purpose a supply of the metal may be required in England when it is not wanted in France. The premium on gold may chance to be low in Paris—that is to say, low in the estimation of a French banker, who would gladly exchange it for silver, in order to meet the demand of his customers. It might thus happen that the exchanges would be favourable to England at a period when they would not, in reality, be unfavourable to France. No perfect par of exchange, therefore, can possibly exist as between two countries, which have not the same standard metal for their respective currencies. Palmer, 136.
Rothschild, 4,829.

Palmer, 137.

II. PAR BETWEEN ENGLAND AND FRANCE.

When *we* say that a *par* of exchange exists between this country and France, we mean that we can then obtain twenty-five francs and twenty centimes in Paris for a sovereign. When for the sovereign we can get only twenty-five francs and fifteen or ten centimes, we then consider the exchanges as so much below par. The sterling value of the sovereign is thus so far reduced; and it is evidence of the fact, that we Par between England and France.
Rothschild, 4,788.

¹ Gold is in France a legal tender; but a creditor cannot demand it without paying for it an *agio*, or premium. 138.

Par between
England and
France.

Rothschild,
4,787.

are sending gold abroad upon which we receive no premium. In this state of things the exchanges are unfavourable to us. If we calculate the value of the currency here against that of the currency of France, we may at any period ascertain the par pretty correctly, by adding to that value the premium then payable for gold. The exchanges are against the country which pays the higher premium, and the amount of the excess is the measure of its loss.

III. SIGNS OF UNFAVOURABLE AND FAVOURABLE EXCHANGES.

Unfavourable
exchanges.

Palmer, 134.

Practically speaking, the exchanges may be said to be unfavourable to this country, when there is a more than ordinary continued demand upon our currency for gold; and unless that demand arise from political discredit at home, we may infer that the gold is going abroad in large quantities. A temporary demand of that kind may exist at a high, as well as at a low rate of exchange; as, for instance, when a supply of that metal to the amount of a million was sent out not long since for the supply of the Russian army. To a certain extent, that demand was injurious; but its action, being limited in point of time, was soon rectified.

Vard, 1,942.

1,935.

Since the repeal of the laws prohibiting the exportation of coin, and in consequence of the increased facilities, and the cheapness of transit between England and the continent, merchants who have large remittances to make abroad, frequently make them in sovereigns. They do so, because they may not have time to purchase bills, and it may be of importance to

them to forward the remittances without delay. They, moreover, thus avoid the risk of buying bad bills, and it may be conducive to their advantage to conceal the nature of their business from rival speculators. The exchanges may happen at the time to be unfavourable to this mode of payment, and yet it may, upon the whole transaction, be beneficial to the merchant. Mr. Rothschild, for example, might embark in a financial operation at Paris or Berlin, the profit of which he calculates at three per cent. It becomes reduced to two and three quarters, perhaps, by reason of that mode of remittance during an unfavourable state of exchange. Nevertheless, he has his two and three quarters per cent profit, and thus the balance is materially in his favour. But these, again, are exportations of gold that only create a temporary demand upon our currency, and they are soon rectified by the profitable returns which ensue.

Unfavourable
exchanges.

Ward, 1,938.

When, however, we happen to have a bad harvest, and a great quantity of corn is necessarily imported from the continent, it must be paid for chiefly in gold, according to Mr. Rothschild, whose doctrine, as I am informed, is not correct in practice. Most persons who deal in corn have but limited credit : the foreign agent draws his bills immediately, and sells them without reference to the exchanges, and that, perhaps, produces an effect to a certain extent.

Rothschild,
4,886.

But, on the other hand, there are a great many merchants from the West Indies, who have bills running upon them here, for coffee and different kinds of produce which they cannot sell in England ; they, therefore, send it to the continent, and draw bills for it. Against those bills some remittances must come back ;

Favourable
exchanges.

Rothschild,
4,802.

Favourable exchanges. and as people of property here will not involve themselves in foreign acceptances, those remittances must be in gold. When that happens, the exchanges take a turn in our favour.

IV. FOREIGN LOANS.

Foreign loans. It has been supposed that loans made in England, for the use of foreign states, have the effect of producing unfavourable exchanges; and so they would, most probably, if they were of any considerable amount, and if the remittances of the English subscribers were all made to those foreign states in gold. But Mr. Rothschild states it as a matter within his own experience—and who is a better authority upon such a subject?—that when loans are negotiated, they give rise in fact only to a change from one stock into another. “If loans are made,” says that gentleman, “most of the capitalists who hold funded stock, in general change one stock when they take others; so that it is only a change of property. For the last four or five years I have found, that when a new loan is made, most capitalists only changed one property against another, and very little property is wanted from this country. . . . I know,” he adds, “that every foreign loan that has been made has done very little injury to the exchanges, because an immense deal of stock has always changed hands, and been re-sold to foreign capitalists with a profit.” It is, moreover, to be taken into consideration, that the interest paid upon those loans operates the other way in favour of England; and it would seem, therefore, that, upon the whole, those loan transactions have produced no great effect one way or the other upon the exchanges.

Rothschild,
4,804.
4,805.
4,806.

V. GENERAL STATE OF TRADE.

What, then, it may be asked, is the principal source from which the prevailing current of the exchanges really flows, and by the increase or diminution of the supply in which the stream rises or falls as it passes through the various commercial countries of the world? It is the general state of trade between the nations; and each nation drinks of a smaller portion of the current, in proportion to the quantity taken out of it by that with which it is more immediately in contact. In other words, as Mr. Rothschild puts it, the balance of payments as to those countries with which you trade is really and truly the only guide for the rate of exchange. If the balance of payments be against you, the exchanges are against you, and *vice versâ*.

General state of trade.

Rothschild, 4,859.

4,800.

Now, the general excellence and cheapness of our manufactures attracts to England customers from all parts of the world.¹ England is, moreover, the place of settlement for whatever is wanted in India, China, Germany, Russia, the Brazils, and the Americas. If we import from Sweden 1000*l.*'s worth of iron, and manufacture it, we raise its value to 10,000*l.* So, also, the cotton, which we receive from America, costs three-pence or sixpence a pound; but when it is manufactured, that pound of cotton is worth four times as much. It follows, therefore, that, generally speaking, the balance of payments as between England and all other parts of the world to which we send our manufactures,

4,856.

4,799.
4,866.

¹ I am bound to observe, that the whole of this statement should be received with great caution. Practical men say, that no country can for a *continuance* sell more than it buys. Upon this subject, I am happy to be able to refer the reader to an extract from Mr. Cock's admirable pamphlet, Appendix F.

General state of trade.
Rothschild, 4,871.

4,872. is in our favour. All the gold and silver of the world have a tendency to come here; but that tendency is, to a certain extent, checked by foreign loans, by occasional importations of corn, and by the constant importations of wool, wine, brandy, fruits, and other commodities and articles of luxury. Mr. Rothschild states it as a matter of fact, within his own experience, that

4,876. there is a surplus of articles exported from this country above those imported, in consequence of which there is a regular payment of gold to this country from the whole

4,875. world. "I purchase," says he, "regularly, week by week, from 80,000*l.* to 100,000*l.* worth of bills, which are

4,877. drawn for goods shipped from Liverpool, Manchester, Newcastle, and other places, and I send them to the continent to my houses. My houses purchase against them bills upon this country, which are drawn for wine, wool, and other commodities. But if there be not a sufficient supply of bills abroad on this country, we are obliged to get gold from Paris, Hamburgh, and elsewhere." In this way there is, in point of fact, in the

4,876. ordinary course of things, a regular payment of gold to this country from the whole world, which shews, that the bills drawn abroad are not equal to those drawn at home; and that "the bills drawn upon the Royal Ex-

4,877. change must bring gold from all parts of the world."¹

app. No. 97.

Vard, 1,908.

¹ This statement, however, must be taken literally, with reference to the par of exchange and the premium on gold abroad. It appears, that between the 1st of February, 1820, and the 1st of June, 1832, the rate of exchange on Paris was never under twenty-five francs and twenty-two centimes, and that during the whole of that period, gold bore a premium at Paris ranging between one and seventeen francs per $\frac{0}{00}$. Nevertheless, as compared with other periods, the exchanges have been considered adverse; perhaps, more properly speaking, we should say less "favourable" to this country, when they fell, in August 1824, from 25*f.* 62½*c.* to 25*f.* 40*c.*, and after ranging as low as 25*f.* 32*c.*, did not rise

VI. OPERATIONS OF INDIVIDUALS, SINGLE OR COMBINED.

If the general state of trade be the true guide of the exchanges, it follows, therefore, that no individual, or combination of individuals, could succeed in influencing the exchanges for any considerable period of time. A person of capital, if disposed to make such an experiment, might undoubtedly go on the Exchange, and by buying bills on two or three post days very largely, he might, to a certain extent, affect the market. But he cannot buy the bills unless they be in the market; and their presence there is the result of the general state of trade, which it is not in his power to control. Even the Bank of England, with all its capital, could never, were it so inclined, guide the exchanges for any extended period. It might possibly act upon them for a little while; but unforeseen circumstances—circumstances incapable of being calculated upon, or of being in any way controlled or provided against—arising out of the commercial operations of people in every quarter of the old world or the new, would prevent any power whatever, collective or individual, from producing an artificial effect upon the exchanges during a period of even two or three successive months. Things will always find their level; and whatever concerted obstructions may be thrown in their way, the exchanges will eventually come round again.

Operations of individuals, single or combined.

Rothschild, 4,795.

4,976.

4,799.

4,798.

again above 25f. 60c. until February 1826. So, again, they were below 25f. 60c. between August 1827 and February 1829. From March 1829 they kept high until September 1830; they then continued looking downwards until March 1832, when they recovered again, and rose gradually to 25f. 97½c.

Gurney, 3,513.

CHAPTER VI.

NATURE AND AMOUNT OF ENGLISH CURRENCY — ITS ADVANTAGES — FLUCTUATIONS TO WHICH EVERY SPECIES OF CURRENCY IS LIABLE — EFFECT UPON IT OF FOREIGN EXCHANGES — PECULIAR FLUCTUATIONS TO WHICH THE CURRENCY OF ENGLAND IS EXPOSED.

I. NATURE AND AMOUNT OF ENGLISH CURRENCY.

Nature and amount of English currency.

THE gross income arising out of the general industry of this country is estimated by Mr. Mundell¹ at about six hundred millions per annum. The countless transactions between man and man, by which this immense revenue is created, are carried on through the medium of a mixed currency, which consists of metallic coin, commercial bills of exchange, the notes of private and joint-stock bankers in the country, and of the paper of the Bank of England. Mr. Mundell, without giving any reasons for his supposition, assumes the total amount of the currency in active circulation to be upon the average about sixty millions.² The operations of trade are, however, conducted with so much rapidity, and diverge in their progress into so many divisions

¹ "The Industrial Situation of Great Britain," p. 127.

² *Ib.* p. 29. Mr. Burgess (5,351) estimates the metallic currency of the country at 30,000,000*l.*, and the paper circulation (comprising all sorts of paper) at 200,000,000*l.*; so discrepant are even conjectures upon this subject!

and subdivisions, that no elements can probably be collected, from which the actual amount of the currency, at any given period, could be estimated with even an approximation to accuracy. Nature and amount of English currency.

The ordinary circulation of the Bank of England might indeed be safely taken at about twenty millions. App. No. 78.
The circulation of the country banks, which, since the suppression of the small notes, and the establishment of the branch banks, has been very materially reduced, might also, perhaps, be reasonably estimated at about four millions. Gurney, 3,631.
But whether the amount of sovereigns actually engaged in the currency be five, Palmer, 489.
or ten, or fifteen millions, is a question which must be left to mere conjecture. Equally vague must all speculation be with reference to the amount of commercial bills afloat in the currency, either circulating as money, or as already discounted, and therefore represented by Bank paper or coin. Gurney, 3,269.

It seems pretty well ascertained that, as compared with former periods, very little circulating medium is now required for the transaction of every kind of business. Stuckey, 978.
A great landowner, for instance, appoints a steward to collect his rents. The steward, some years ago, would have received the whole of the rents in various country bank notes, which he would have had exchanged, either at the establishments by which they were issued, or at the houses of their correspondent in London, for Bank of England paper, and that paper he would then have deposited with his principal's banker. But now the tenants have, very probably, an account with a country bank, upon which they give the steward checks, and upon the presentation of these Ib.

Nature and
amount of
English cur-
rency.

checks, the money is at once directed to be paid over through the London correspondent to the principal's banker in town. The only circulating medium required by this proceeding consists of Bank of England notes; and the use of country paper is altogether dispensed with. This system of expedition, which applies also to the collection of the taxes, prevails to a very great extent: it has been introduced gradually, and in consequence of the improved method of transacting business.

Stuckey, 980.

II. ADVANTAGES OF ENGLISH CURRENCY.

Advantages
of English
currency.

This mixed currency which we possess, and which, though partially existing in the United States, is scarcely to be found in any other country, appears to be decidedly the best that could have been devised for a commercial people. It would be quite impossible to conduct the business of this country through the medium of gold alone, by reason of the magnitude of its transactions. The revenue, for instance, amounts to about fifty millions a year. Supposing the possibility of collecting it in coin, how could it be remitted to the Exchequer from different parts of the country, and thence distributed again in the shape of dividends and salaries for public services, with any practicable convenience? The daily amount of the transactions at the clearing house are supposed to range between two and fifteen millions. If there were no notes, Lombard street must be constantly crowded with trucks filled with bags of gold, in order to enable the agents to adjust the account; whereas, under the bank-note system, a small pocket-book, well filled, answers every purpose.

Gurney, 3,505.

Ward, 1,979.

Q. 3,624.

Ward, 2,139.

III. FLUCTUATIONS TO WHICH EVERY SPECIES OF CURRENCY IS LIABLE.

As long, generally speaking, as the trade of any country is liable to fluctuations—and fluctuations must take place whenever demand is not equal to supply, or supply to demand—so long will the effect of those vicissitudes be indicated by high or low prices. As those prices are paid in currency, we are too apt to imagine, that, when fluctuations occur, it is in the currency chiefly that they take place; whereas, correctly speaking, currency is but the symbol of trade, the mere register by which the ebbing or flowing of the tide is recorded. It is obvious, therefore, from the very nature of things, that, taken in that sense, the currency of a great commercial nation, whether it be exclusively paper, metallic, or mixed, must be liable to changes. When demand falls short of supply, prices become low, money is difficult to be obtained, and of course its value rises. On the contrary, when supply falls short of demand, prices rise, money is more easily acquired, and in proportion to that facility, its value descends on the scale.

Fluctuations to which every currency is liable. Palmer, 378.

Gurney, 3, 595.

IV. EFFECT UPON CURRENCY OF FOREIGN EXCHANGES.

Further, if a country have many important transactions with other communities in different parts of the world, it is equally obvious that, as those transactions will materially influence its trade, they will also inevitably affect its currency. For instance, if we suppose that a number of merchants in England and

Effect of foreign exchanges.

Effect of
foreign ex-
changes.

Holland carry on business with each other for a certain period, and that, on adjusting the account, the English merchants are found to owe a large balance to the Dutch, and pay it in gold, the ordinary amount of our currency will be, *pro tanto*, diminished. If the balance be on the other side of the account, our currency will be increased in proportion. These cash payments, growing out of the balance of trade between nations, constitute, as we have already seen, the exchanges with reference to the countries so engaged in mutual commercial intercourse. Thus, then, the rate of the exchanges may be generally looked upon as the registers of the actual state of trade between those countries, and consequently of the ebb or flow, so far as they are respectively concerned, of the precious metals, by which the transactions of nations are necessarily adjusted. Generally speaking, therefore, the state of foreign trade regulates the foreign exchanges; these shew the countries to which that state is advantageous or otherwise, and afford, at the same time, the best indices to the local prices of commodities, and consequently to the condition of local currencies.

V. PECULIAR FLUCTUATIONS TO WHICH THE CURRENCY OF ENGLAND IS EXPOSED.

Peculiar fluctuations of English currency.

But these general observations are subject to some important exceptions. We have already seen¹ that the foreign exchanges may be occasionally influenced to some extent by the secret operations of the Bank of England—operations altogether unconnected with the general trade of the world. Considering, also, the very

¹ Ante, p. 19.

large proportion of the currency of this country, which consists of the paper of that establishment, and observing the power which it possesses of increasing or contracting at pleasure the issue of its notes, and consequently of counteracting the natural tendency of trade in depressing or raising the prices of all commodities, it must be admitted that the currency of England is so far peculiarly circumstanced and exposed to greater fluctuations than that of any other nation.

Peculiar fluctuations of English currency.

It becomes, therefore, a matter of great importance to inquire to what extent, consistent with its own safety, a power of issuing notes resides in the Bank—to what extent it has been actually exercised—what have been the consequences—and whether any check exists, or can be devised, by which that power might be placed under due control.

CHAPTER VII.

ISSUES OF THE BANK DURING THE RESTRICTION OF CASH PAYMENTS—CONSEQUENCES OF THOSE ISSUES—INTERFERENCE OF THE BANK WITH THE CURRENCY PREVIOUSLY TO THE RESTRICTION—INFLUENCE OF ENLARGED AND CONTRACTED CIRCULATION OF BANK PAPER UPON THE GENERAL INTERESTS OF THE COUNTRY.

I. ISSUES OF THE BANK DURING THE RESTRICTION.

Issues during
the restric-
tion.
App. No. 5.

THE table¹ which exhibits the annual circulation of the Bank of England, together with the amount of securities and bullion which they have held since the year 1778, shews that, during the period of the restriction act being in force, the power of the Bank to issue notes, which was then unlimited, was exercised to an enormous extent. That act was founded upon the extreme difficulty which existed in 1797 of obtaining gold from abroad—a difficulty which, before it was got over by the order in council, and the statute, had compelled, as it is now understood, the country bankers in some parts of England to come to almost a general determination to suspend their payments, from the consideration, that there was little prospect of their continuing solvent, subject to payment in gold. It has been thought that during the greater part of the ten or eleven years which

Cooke, 4,025.
4,026.

¹ See Appendix to this volume, G.

followed that enactment, the restriction might have been removed without any sensible injury to the money circulation or prices of the kingdom. It might have required an effort; but that effort would probably have met with no insurmountable obstacle.¹ However this may have been, it appears from the table already referred to, that after the passing of the act, the circulation of the notes of the Bank rose, by marked stages, from about nine millions, to eleven, thirteen, sixteen, seventeen, twenty-one, twenty-four, twenty-five, twenty-seven, and eventually to nearly thirty millions.

Issues during the restriction.
Tooke, 4,027.

4,028.

It should at the same time be observed, that with that increased issue, prices and transactions of all kinds requiring additional currency had greatly extended, without any material effect of depreciation being exhibited in the foreign exchanges.

II. CONSEQUENCES OF THOSE ISSUES.

If we look at the profits realised by the Bank during the period of the restriction, we shall find that they were very large indeed. Within the first seven years, the proprietors received, in the shape of bonuses, upwards of two millions and a half. Their dividends were then raised from seven to twelve per cent, at which rate they continued for two years. They were then reduced to ten per cent; but this reduction was afterwards more than compensated by another bonus of nearly three millions. If the restriction act, therefore, gave the Bank unlimited power of issuing notes, it is

Consequences of those issues.

¹ Mr. Tooke very strongly expresses this opinion. See his evidence from 4,025 to 4,038.

consequences of those issues. manifest that that power was exercised to the very great profit of the proprietors.

So long as the Bank were not liable to be called upon to pay in gold, it mattered, of course, very little what proportion of bullion they retained in their vaults. It is confessed, that during that period, they never drew any line by which they should be actuated in that respect, conceiving that the attempt to do so would be useless, in consequence of the constantly unfavourable state of the exchanges. For the same reason, although it is asserted that they always adverted to the state of the exchanges, it is honestly conceded that they did not then always act upon them with reference to their issues. It is admitted, moreover, that, we may say, during the whole period of the restriction, their issues upon discounts were excessive. From 1803 down to 1816, the *quarterly* average amount of bills and notes under discount seldom fluctuated below ten millions: they generally were as high as thirteen, and in 1810 exceeded twenty millions. No principle of moderation appears to have been thought of by the directors, with reference to discounts, until the repeal of the restriction was proposed. There is no doubt that one main principle looked to during the restriction was the interest of the proprietors; although that interest may not have been (and I believe was not) the *cause* of the increased issues. If the attention of the directors has been recently more alive to the general service of the public, it would seem in some measure to have been the result of the parliamentary inquiries which have since taken place.

Harman,
2,152.

2,153.

2,155.

almer, 194.

pp. Nos. 56,

Harman,
2,369.

2,370.

III. INTERFERENCE OF THE BANK WITH THE CURRENCY PREVIOUSLY TO THE RESTRICTION.

The interference of the Bank with the currency of the country, previously to the epoch of the restriction, appears also to have been extremely prejudicial to the public interests on several occasions. The years 1783 and 1784 were signalised by great commercial distress, which, if not produced, was much aggravated by an enlarged issue of bank-notes in March 1782, and a sudden contraction of them in the December of the same year, the reduction having been from 9,600,000*l.* to 5,994,000*l.* The enlarged issue happening to be coincident with other circumstances which favoured speculation and general over-trading, increased that tendency; and the sudden contraction necessarily added to the distress which is usually consequent upon excessive speculation. The diminution of bank-notes has a tendency to make money scarce in the London market, to raise the rate of discounts, to cause sales of stock and Exchequer bills, and consequently to reduce the prices of all commodities. On the other hand, an enlarged issue of notes is calculated to advance prices; and although there are no elements for exact calculation upon the subject, it would seem that an increase of one million upon a previous circulation of fifteen or twenty, might tend to raise prices as much as five per cent, and that an increase of three millions would be equal to an advance in prices of fifteen per cent, all other things being equal; that is to say, provided that every other species of circulation were augmented in an equal proportion, which never is the case.

Interference
with currency
before the re-
striction.

Tooke, 3,811.
3,818.

Q. 3,814.

Tooke, 3,818.

Harman,
2,178.
2,179.
2,180.

Q. 2,532.

Norman,
2,534.

2,537.

interference
with currency
before the re-
striction.
Cooke, 3,820.

Again, in 1791, there was another enlarged issue by the Bank, which was also coincident with a tendency arising from other circumstances, to a considerable reduction in the rate of interest, and to speculations of various kinds. About that period, moreover, there was a great extension of country banks, a general increase of transactions upon credit, and an immense circulation of paper carried on with the continent. But at the close of 1792, the speculations then in progress encountered some considerable checks, and a very great revulsion took place, the most momentous which, prior to that time, had occurred in our commercial history. It is not contended that the enlarged issue of the Bank in 1791 was the sole cause of these unfortunate events; but it cannot be doubted, that, coinciding as it did with other circumstances which favoured over-trading, it contributed to strengthen their natural tendency, and to aggravate very materially the consequences by which they were followed.¹

It is true, that if the circulation of the country had then consisted exclusively of coin, a similar expansion of the currency must necessarily have occurred on account of the influx of gold. The Bank might therefore be justified in having enlarged its issue, in as far as the increase was merely in payment for gold brought in. Yet, taking place at the time it did, the consequences were not the less injurious to the country in fostering extended speculations. It is difficult to say what other conduct the Bank could have pursued under such circumstances; but so far as the enlarged issue was

¹ Compare with this statement the fluctuations in bullion in 1782-4 and 1791-3, App. H.

made upon the plea of affording assistance to Government, or accommodation to trade, it was not justifiable. It is the business of a bank that administers a paper currency in exchange for gold, or in lieu of gold, to have no other end in view than that of preserving its paper strictly, correctly, and invariably upon a level with the value of gold; and any succour given to Government or trade, involving an increased issue, not called for by the wants of the circulation, is a departure from the legitimate objects of the institution.

Interference with currency before the restriction.
Tooke, 3,830.

IV. INFLUENCE OF ENLARGED AND CONTRACTED CIRCULATION OF BANK PAPER UPON THE GENERAL INTERESTS OF THE COUNTRY.

Without adverting to the enlarged issues upon gold,¹ which the Bank cannot perhaps at any season very well avoid; it should, however, be remarked, that the increase of bank-notes, when that increase does not happen to coincide with the prevailing spirit of speculation, has sometimes taken place without any detriment to the general interests of the country. During the most active period of the war, 1812 and the early part of 1813, agricultural produce attained to very high prices. About the same period, and down to 1814, the prices of almost all exportable commodities, but of colonial produce particularly, rose above one hundred per cent. Upon the conclusion of the peace, in 1814,

Influence of enlarged and contracted circulation.

Tooke, 3,836.

¹ As, for instance, those of 1816 and 1817. In his evidence given before the bullion committee of 1819, Mr. Tooke expressed an opinion that those issues were highly injudicious. But he has since retracted that opinion, as he states, 3,832, that he was not then aware that "the whole of the increased issues of 1816 and 1817 were simply in payment of gold." So far as the Bank was concerned, he, therefore, thinks them perfectly justifiable.

fluence of
arged and
tracted
ulation.

speculative exports took place to an enormous extent. The effect of this over-trading, and of the extravagant prices paid for the commodities so exported, was not fully felt till 1815, and part of 1816, when the returns were coming forward ; and it appeared that the exports of 1814 left a loss, upon the average, probably, of at least fifty per cent to the shippers. These untoward results coincided with a very great fall in the prices of agricultural produce, and the consequence was severe general distress among the agricultural, commercial, and manufacturing classes, attended and followed by extensive failures among the country bankers. In the latter part of the year 1814, the Bank of England enlarged its issues to the amount of three millions ; but the circulation of that increase being coincident throughout the country with a very great fall of prices, not only of exportable commodities, but of agricultural produce, it was consistent with a very rapid advance of the exchanges, and a fall in the price of gold. Far from augmenting the then prevailing distress, it operated rather the other way ; for it contributed, though not sufficiently, to fill up the chasm in the currency which was produced by the failure of several country banks.¹

oke, 3,837.

8,342. instances have occurred of extraordinary speculations taking place in very extensive classes of commodities, without any increase whatever in the circulation of the

¹ Mr. Thornton, in his evidence in 1819, stated, that "in the latter part of the year 1814, demands were made upon the Bank to supply the deficiency in the country, particularly Northumberland and Durham."—*Lords' First Report*, p. 77.

Bank of England, and when, from all the received tests, that circulation might even have been considered to be in an extremely contracted state. Thus, in 1798, the circulation was less than it had been, upon the average, for four or five years before the restriction; and in 1799 it was still lower, as compared with the great increase of transactions connected with the war. Nevertheless, within that interval of contracted¹ circulation, there was a very large class of commodities² which advanced considerably above one hundred per cent, in consequence of speculations partly originating in this country, and partly arising from abroad. A fall of prices subsequently occurred, causing, of course, great distress; but that fall, and its consequent evils, were actually coincident with an increase of Bank issues. Again, it appears that a similar rise of one hundred per cent took place on our own agricultural, and almost all articles of European raw produce,³ about the close of the year 1807, which rise was completed by the spring of 1809, when a rapid fall commenced, and went on until August 1810. Now, the Bank circulation, which had been about seventeen millions for five years preceding, was, in February 1808, only 16,843,000*l.*; and so it remained till the very end of that year. Between

Influence of enlarged and contracted circulation.

Tooke, 3,991.

3,845.

3,848.

3,845.

3,848.

¹ See 3,991 to 4,021, where this evidence is more fully explained. In point of amount, the circulation does not appear to have been literally contracted at the period in question; but Mr. Tooke expresses it as his opinion that, deducting the issues made in gold and silver, and considering the increase of population and commerce, there was no *artificial* increase of circulation within that interval.

² Fine Jamaica coffee rose within that period from 70*s.* to 196*s.*; West India and American cotton from 1*s.* to 5*s.*; cochineal, from 12*s.* to 54*s.*; Carolina rice, from 14*s.* to 40*s.*; and Jamaica sugar, from 38*s.* to 87*s.*—Tooke, 3,842.

³ Spanish wool, flax, hemp, tallow, linseed, silks, and cotton wool, particularly.—Tooke, 3,845.

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enlarged and
contracted
circulation.

Tooke, 3,845.

3,977.

4,090.

4,019.

the spring of 1809 and the month of August 1810, the circulation gradually increased to twenty-four millions.¹ Hence it appears that important speculations may take place, not only without any enlargement of the circulation of the Bank of England, but in a remarkably contracted state of it; and that a fall of prices, with its consequent distress, may be coincident with an augmentation of Bank paper. In fact, it is Mr. Tooke's firm belief, that there is hardly a single instance in which the Bank issues can be adduced as the *origin* of a rise in prices. After a rigorous examination of the subject, he states, that he has not noticed in any important case, that the rise of prices, or the fall of prices, has been an immediate sequence of an increase or diminution of the Bank circulation. He admits, however, as he has, indeed, in his recent evidence, uniformly stated, that "the [mercantile] causes for a rise of prices existing, an enlargement of the circulation of the Bank is calculated to contribute to a greater rise, and one of longer duration, than would otherwise have existed." On the other hand, he also admits, as a general proposition, capable, however, of being compensated by circumstances, that other causes existing for a fall of prices, a material decrease of the circulating medium would have a tendency to depress them still lower.

We may perhaps infer, from what has been stated,

¹ Upon this point, also, Mr. Tooke found it necessary (3,845) to rectify an opinion which he had expressed before the committee of 1819. Having then misapprehended the precise date and progress of the enlarged issue, he attributed the high prices of 1808-9 to the seven millions added between the spring of 1809 and the month of August 1810—a mistake which shews how essential it is in all discussions upon such subjects to be strictly accurate, not only as to *sums*, but as to *dates*.

that whenever the Bank enlarge their issues upon gold, they are perfectly justifiable, even if those issues be detrimental to the public interests, because that detriment would have been effected by the influx of the metal itself, if there had been no Bank in existence. Again, assuming the Bank to enlarge their issues upon discounts, it might happen that those issues would be injudicious, so far as the Bank are concerned, and yet would do no injury to the public. If other causes for a rise of prices did not exist, though, generally speaking, an enlarged issue has a tendency to raise prices, nevertheless, it might not operate in that way. Further, it might even happen to fill up a vacuum otherwise created in the currency. On the other hand, a contracted state of the Bank circulation is consistent with rising prices, though a sudden contraction of that circulation, contemporaneously with falling prices, without producing, may aggravate the mischief.

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enlarged and
contracted
circulation.

Thus, as Mr. Ward puts it, an increase of bank-notes affords facilities to speculation; but would not produce it invariably: sometimes the increase is drawn forth by speculation previously in the excess—it is sometimes the cause, sometimes the effect. An enlarged issue is at all times conducive in its tendency to high prices for a moment; a reduction of notes has, on the contrary, a tendency to depress them, so far as the conduct of the Bank is concerned; the only question is, whether the increase or decrease that is made is in character with the sound principle of currency, and whether the degree and mode of administration are suited to the circumstances to which they are applied.

Ward, 1,992.

2,033.

Some of the witnesses examined before the committee

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contracted
circulation.

yer, 4,293.

4,294.

4,295.

put the issues of the Bank, however, in a very different point of view, representing them as the immediate cause, not only of the great panics which have occasionally occurred, but also of "a constant succession of little panics,¹ which continually annoy the commerce of the country by monthly and weekly fluctuations, by putting out paper which is necessarily put out as a dividend upon the public debts, and then by drawing it in, not in the regular and rational way in which it ought to be drawn in—namely, by paying bills discounted; but by drawing out in a forced manner, and selling securities at an under rate." "These fluctuations," Mr. Dyer continues, "affect our prices, and our daily transactions as merchants and manufacturers; they have occasioned great changes in the prosperity of trade, which were in nowise connected with the real circumstances that ought to produce either briskness or dulness, namely, an increased or diminished amount of demand. I endeavoured to obtain some light upon this subject, which we all of us feel more than we know the reasons of: in getting some returns, however, which relate to the weekly issues of the Bank of England, I find that my theory is no longer a theory; but it is a lamentable fact, that those issues, sometimes in a single week, vary three or four millions." The witness stated, that he grounded his opinion on the returns of the weekly issue from December 1819 to February 1826; but upon being asked, whether the quarterly collection of the revenue and payment of dividends would not, of necessity, produce fluctuations in the amount of the notes issued, even if no such body as the Bank existed, he

¹ Mr. Dyer, one of the directors of the joint-stock bank at Manchester.

admitted that such fluctuations must inevitably occur, and that "they would certainly be likely, in some respects, to affect the aggregate amount at different periods of credit in circulation." He could very well understand, therefore, why there should be quarterly fluctuations independent of the Bank; but he could not see "why there should be fluctuations weekly to the amount he had observed, unless it were upon some principle that was altogether incomprehensible; or else it was merely to get profit."

Influence of enlarged and contracted circulation. Dyer, 4,296.

4,297.

The weight of Mr. Dyer's evidence upon this point may be judged of from his answers to the subsequent questions.

"Are you aware that it is a principle of the Bank of England, when bullion is carried to it for sale, invariably to make a purchase of it; and may not this account for the sudden fluctuations of issues?"—"I should think that any one of the directors of the Bank of England, personally conversant with their affairs, might give accurate information upon that subject; but I do not know how they manage their business."

4,298.

"Supposing this to be the principle upon which the Bank regulates its issues for bullion, in what respect does this fluctuation, from the issue of notes in the purchase of bullion, differ from the fluctuation that would take place in the currency, supposing the Mint had bullion to the same amount taken to it, in order to be coined—would not that taking the bullion to be coined occasion similar fluctuations in the amount, even of a metallic currency?"—"If there are any specific instances in which the issue of two millions more in one week than were issued in the preceding week, were to

4,299.

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enlarged and
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circulation.

be accounted for by its being shewn that the Bank had, upon that particular occasion, two millions more of gold, I should think that was fairly accounted for, and that that gold might be assumed to be a part of the circulation as soon as it was coined."

Dyer, 4,300.

"Would not a like fluctuation in the amount of currency take place, even although it were a metallic currency, and there were no body like the Bank of England to issue their notes in exchange for the gold taken to it?"—"If there was nothing but a metallic currency, then the total amount that was from time to time brought into the country, and sent to the mint to be coined, would add so much to the sum total, and so far depreciate the value of the individual parts of it, and *vice versa* as to the exportation; and this importation and exportation would effect the same thing, whether it went through the hands of a hundred importers or one."

4,301.

"Therefore, even if it were a purely metallic currency, would you not expect the same kind of fluctuation which you now experience in a scarcity of money, and a rise or fall of discounts, which now takes place under the present system?"—"Certainly not; because, if we imported two millions of gold, and had them coined this week, I should think it very odd if they were exported the next week; and that must be the supposition, because I have referred to fluctuations both up and down."

Smith, 4,332.

Mr. Smith, another of the directors of the joint-stock bank at Manchester, complains strongly of "the powers possessed by the Bank to expand and contract their circulation at will, and thus to give our currency a

fluctuating, instead of a steady character ; their operations being not only uncontrolled, but conducted with a secrecy which even the Bank proprietors themselves are not allowed to penetrate. Their influence over the private banks has necessarily been irresistible, and these have in fact (perhaps unconsciously) been rendered the mere agents or satellites of the Bank of England. Hence, though the Bank of England has not been the only bank in the country, the real controlling power over our currency has been solely vested in the directors of the Bank—a power over the property of the kingdom far exceeding the power vested in any government.” Mr. Smith, however, enters into no particulars with reference to this part of the subject.

Influence of enlarged and contracted circulation.

A third director of the Bank at Manchester, Mr. Burt, who professes to be fully acquainted with the state of the banking trade in England, after expressing himself to nearly the same effect, complains that “ the conduct of the Bank of England is so uncertain, that it is impossible for any merchant to come to a reasonable conclusion as to what will be the effect two or three months hence, and that thus it renders all his speculations and his best plans quite unavailing.” Having been pressed to refer to any circumstances within the last five years which might, in his opinion, prove the impolicy of the conduct of the Bank in this respect, Mr. Burt said, that he was not prepared to mention any particular circumstances of the kind ; “ but,” he added, “ there are so many books upon the subject, by Mr. Tooke, Mr. M'Culloch, Sir Henry Parnell, and other gentlemen, that that information can be easily obtained.”

Burt, 4,452.

4,467.

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circulation.
part, 4,468.

"Then," pursued the scrutinising examiner, "you found your conclusions upon the books you have read?"—"I found my conclusions upon my practical experience of the fluctuations that I have observed as a merchant; and I look to books to enable me to ascertain what the cause has been, wishing to understand, as far as I can, how this fluctuating, varying, distressing system has originated."

4,470. "Have you any reason, from your experience as a merchant, to think that the Bank have misconducted their business since the period of the panic?"—"I cannot pretend to say how the Bank has conducted its business, because I do not know the grounds upon which they act."

4,471. "From your experience of the effect of the conduct of the Bank upon your affairs as a merchant, have you reason to think that they have misconducted their business since that period?"—"I think the Bank has been certainly very variable in its conduct. A period has been alluded to when the bank at Manchester applied for a discount of 20,000*l.* and it could not be got. It consists with my knowledge, that other people that did business with the branch Bank of England at that period had a difficulty in getting discounts—that they were arbitrarily limited—that is to say, they did not know any reason for it. At one period there was abundance of money, caused by the Bank of England letting out paper abundantly, and at another time there was a scarcity of it."

4,472. "Might not the circumstances of the foreign exchanges have justified the Bank in refusing the accom-

modation that you required?"—"I cannot answer that question."

Influence of enlarged and contracted circulation.

It is obvious that the evidence of these three directors of the joint-stock bank at Manchester, with reference to the influence of the fluctuations in the Bank circulation upon the general interests of the country, would have been much more valuable, if it had been based upon particular facts, and if precise sums and dates had formed part of the materials upon which their judgment was founded. It would have been desirable also, perhaps, if there had been no apparent connexion between the tone of their testimony, and the refusal of the accommodation which their establishment had required from the branch Bank of England.

There is one of the ingredients of our currency of a peculiarly sensitive nature, with reference to the effect produced upon it by the Bank issues. Bills of exchange form at present the great currency of Lancashire; and they constituted it almost exclusively, with the exception of the small notes paid for wages, till within these last seven years. Nine parts out of ten of the business of the West Riding of Yorkshire, Warwickshire, and Staffordshire, and in general of the manufacturing districts, are represented by those bills. At one period, the amount of this paper paid into a private bank in Lancashire, as compared with all other kinds of currency, was as fifty to one. Experience clearly shews that these bills, which are chiefly discounted with Bank of England notes, are affected by the extension or contraction of its issues to a very great degree—indeed, to a degree that cannot be satisfactorily ascertained. The necessary consequence of a great and

Burgess,
5,329.

5,331.

5,332.

5,333.

5,334.

5,335.

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enlarged and
contracted
circulation.

Burgess,
5,336.

5,337.

5,338.

5,339.

5,342.

Casthorne,
5,824.

Burgess,
5,366.

sudden diminution of the amount of those bills is an immediate depression of prices, followed by distress ; and thus the contraction of the Bank circulation produces results, that cannot be measured by the mere amount of the issues which that operation subtracts from the currency. It would be very difficult, therefore, if not impossible, for the directors, when for their own protection they decide upon a reduction of the circulating medium, to foresee the extent to which that measure would affect the general commercial interests of the country. But the question resolves itself eventually into this, whether, so long as notes are convertible on demand, or bills of exchange are payable in any standard of value at all, there must not be those expansions and contractions in order to keep the currency at par with that standard, whatever it may be? It is suggested by Mr. Burgess, that no such fluctuations need take place, if the country were in possession of a paper currency well regulated, by which he means paper issued by the Government, and not convertible into cash. But when it is recollected that exchequer bills, which have the advantage of being receivable by the Government in payment of revenue, and also carry interest, have not only been occasionally at a discount, but even at one period actually inconvertible into money, such a remedy as this would, perhaps, but aggravate the evil it was proposed to cure. It would, in point of principle, differ in no way whatever from a temporary suspension of cash payments.

CHAPTER VIII.

SUPPOSED PROSPERITY OF THE COUNTRY AT THE COMMENCEMENT OF THE YEAR 1825—REMOTE CAUSES OF THE PANIC—FAILURE OF THE HOUSE OF POLE AND CO.—CONDUCT OF THE BANK—PROPOSED RESTRICTION OF CASH PAYMENTS—SERIOUS DIFFICULTIES OF THE PERIOD—DISCREDIT OF THE COUNTRY BANKERS—FORTUNATE EFFECT OF AN ISSUE BY THE BANK OF ONE-POUND NOTES—SALUTARY CONSEQUENCES OF THE PANIC.

I. SUPPOSED PROSPERITY OF THE COUNTRY AT THE COMMENCEMENT OF THE YEAR 1825.

WE have reserved for a separate chapter the conduct of the Bank of England during the year 1825, inasmuch as that was a period including in itself two epochs—one of the greatest prosperity, the other of the most formidable distress, which have yet been recorded in the commercial history of this country. That ever-memorable year was supposed, during the early part of it, to be, not the precursor, but the actual beginning of a new era in this country—a golden age in every sense of the word. Every interest was represented to be in the most prosperous condition; the hum of successful industry was heard throughout the fields and the manufacturing towns; every man was contented and

Supposed
prosperity of
the country.

Supposed
prosperity of
the country.

happy, joy beamed on every face, and, as Lord Leveson Gower, on moving the address in the Commons, poetically expressed it, "distress had vanished from the face of the land."

3d February.

This picture may, perhaps, seem somewhat exaggerated; but upon looking back to the parliamentary history of that period we shall find, that all parties, whether Whig or Tory, old or new statesmen, financiers, mercantile men, peers, commoners, or plebeians — all joined harmoniously in the same song of triumph. At the commencement of the session of 1825, the commissioners who delivered the King's speech were commanded by his Majesty to express to both houses the gratification which he derived from "the continuance¹ and progressive increase of that public prosperity," upon which they had been congratulated at the opening of the preceding session of parliament. "There never was a period," they added, "in the history of the country, when all the great interests of the nation were at the same time in so thriving a condition, or when a feeling of content and satisfaction was more widely diffused through all classes of the British people." They spoke of the "flourishing condition² and progressive improvement of the revenue," and especially of "the continued improvement in the state of the agricultural interest,³ the solid foundation of our national prosperity." Viscount Dudley and Ward, on moving the address, said, that "his Majesty's government, his parliament, and his people, now reaped, in honour and in repose, all that they had sown in courage, in constancy,

¹ Hansard's Debates, vol. 12, p. 1.

² *Ib.* p. 3.

³ *Ib.* p. 6.

and in wisdom.”¹ “ There was a prosperity extending to all orders, all professions, and all districts, enhanced and invigorated by the flourishing state of all those arts which minister to human comfort, and by those inventions by which man seems to have obtained a mastery over nature by the application of her own powers ; and which, if any one had ventured to foretell it only a few years ago, would have appeared altogether incredible ; but which, now realised, though not yet perfected, presented to us fresh prospects, and a more astonishing career.” The Earl of Liverpool congratulated the house in a tone of peculiar triumph upon the completion of that great measure, “ the return to a sound metallic currency.” “ The task,” he added, “ had been a Herculean one ; but we had accomplished it, and were now enjoying our reward. England had reached a state of prosperity greater than any other country enjoyed—nay, greater than she herself, at any antecedent period, had ever attained.”²

Supposed prosperity of the country.

In the House of Commons, Mr. Alderman Thompson, who might be considered as peculiarly conversant with the commercial state of the country, testified to the fidelity with which that state was pictured³ in the King’s speech. In the excise there was an increase of more than a million, as compared with the preceding year ; in the customs there was a similar augmentation. “ Whatever part of England you visit, there are presented to your view a happy, contented, and industrious population ; whether they are employed in the manufactories of our great staples, or in the cultivation of the soil, the scene is equally gratifying.” The exports

¹ Hansard’s Debates, vol. 12, p. 5.

² *Ib.* p. 24.

³ *Ib.* p. 48.

upposed
prosperity of
the country.

of 1824 were the largest ever known (in official value, 50,758,800*l.*), and exceeded those of 1823 by four millions and a half. The transit-trade had experienced a marked increase. The shipping interests were all in a state of rapid improvement. About two hundred more merchant-vessels had been built within the preceding year, and they had all "plenty of employment." The Chancellor of the Exchequer, in making his exposition of the financial situation of the country, appeared anxious only to subdue to a statesman-like tone of moderation the feelings of exultation which were swelling in his bosom. But it is not a little remarkable that, while those feelings were struggling within him for adequate expression, some small still voice seemed to warn him of the unseen abyss which was already opening at his feet. The exordium of his speech on that occasion was, without any consciousness of danger upon his part, almost prophetic. "Although," said he, on rising, "I cannot forbear¹ to congratulate the house upon the auspicious circumstances under which we are called upon to review the state of our finances; I can truly say, that I do not do so for the mere purpose of making a flourish, nor with any desire to induce the country to indulge in an unreasonable exultation as to the present, or an extravagant anticipation as to the future. But although I have no such object in view, and although there may be in this country, and unquestionably are in other countries, persons who, either jealous of the eminence of our station, or ignorant of the causes which have placed us there, may represent our present prosperity as the forerunner of our

28th Feb.

¹ Hansard's Debates, vol. 12, p. 720.

ruin, and may wish to describe us as having merely hastened Supposed prosperity of the country.

— ‘Numerosa parare
Excelsæ turris tabulata, unde altior esset
Casus, et impulsæ præceps immane ruinæ,’

I, nevertheless, am of opinion, that if, upon a fair review of our situation, there shall appear to be nothing hollow in its foundation, artificial in its superstructure, or flimsy in its general result, we may safely venture to contemplate with instructive admiration the harmony of its proportions, and the solidity of its basis.”

II. REMOTE CAUSES OF THE PANIC.

In the whole history of error, there is not a more signal instance of the utter fallacy of human calculation, than was furnished by this very fabric of prosperity, which was supposed by the Chancellor of the Exchequer to have then rested upon so firm a foundation. While he was praising the beauty of its proportions, Providence, if it had been consistent with Divine wisdom to make such a revelation, might have told him, that the situation of the country was indeed hollow, artificial, and flimsy; and that his sanguine anticipations would be proved, by the experience of a few months, to be a mere vision, comparable only to those splendid but delusive spectacles, which the lamp of the Arabian is fabled to have created. Causes of the panic.

It is not, perhaps, possible to reassemble in review all the elements which may have combined to produce the panic of 1825. But it may be advantageous to state a few of the causes, which are believed principally to have led to that catastrophe.

causes of the
panic.

pp. No. 28.

App. No. 5.

Geo. 4, c. 70.

Vard, 1, 978.

1, 979.

1, 978.

1, 976.

In order to meet the obligation of resuming cash payments, the Bank had, in consequence of a series of operations, accumulated, on the 20th of December, 1823, coin and bullion to the amount of 14,142,000*l.*, being the greatest quantity of treasure they had ever possessed before. This amount they possessed at a period, when their own outstanding notes under five pounds did not exceed the sum of 500,000*l.* As more than half of their bullion had been destined to meet the withdrawal of the country bank small notes,¹ and as the period for the withdrawal of those notes (1825) was unexpectedly postponed by the act of 1822, that portion of the treasure thus collected became superfluous. If a country banker be possessed of more gold than he wants, he can forward it to London, and exchange it for the notes of the Bank of England, or have it invested in stock and productive assets. But if the Bank were desirous of discounting in gold, they could not do so, as no merchant would take it in the ordinary transaction of business. If they invested gold in other securities, such as exchequer bills, it would infallibly come back to them, in consequence of its being impracticable to carry on mercantile affairs through the medium of a metallic currency. The only means they have of rendering their gold productive, is to issue notes against it, with which they purchase such securities as they deem eligible; and then they wait until it is gradually reduced by the course of trade to the proportion which they usually retain.

So long as treasure was increasing in the hands of

¹ For, the Bank being the great mart for gold, the country bankers could have been supplied only from that source.

the Bank, evidence was thereby afforded of the depressed state of the currency of this country as compared with that of others. During the early part of the year 1822, the very low state of the aggregate currency of the country, if not itself one of the consequences, was a decided token of a great fall of prices in commodities of almost every description. The country bank circulation which, for some years before that time, had ranged from eleven to sixteen and twenty millions, was then reduced to seven. Wheat was at an average of 43s.; complaints of distress were pouring in upon the Government from all sides. With a view to relieve that distress, as well as to stimulate the circulation, Government proposed to borrow four millions of exchequer bills from the Bank, and to lend them out on parish rates and public works. It was stated by Mr. Huskisson, that one of the chief objects which they had in that operation was to revive speculation, then dormant; upon which revival they placed their main hope of restoring the prosperity of the country, there having been at that period a great want of what might be called legitimate enterprise. That measure, however, was not carried into effect, the Government having contented themselves with prolonging the time for the issue of small notes.

Causes of the panic.

Ward, 2,015.

1,983.

2,015.

From that period, the country bank circulation (hitherto so limited, in consequence of the approach of the epoch first fixed for the withdrawal of the small notes,) began to increase. A speculative spirit was soon awakened, and prices rapidly improved between the middle of 1822 and the commencement of 1825, fully twenty-five, if not even fifty per cent, which indi-

Ward, 2,011.

uses of the cated a decided commercial excitement that foreboded
 nic. no good.
 ard, '2,034.

There seems to be no reasonable doubt,¹ that this excitement was not a little inflamed by the reduction of the interest upon Government securities, which took place in 1823 and 1824. In the former year, the interest was reduced one-fifth upon 135,000,000*l.* of five per cents; and in the latter, the interest was lowered one-eighth upon 80,000,000*l.* of four per cents. These reductions created a feverish feeling in the minds of the public at large, which prompted almost every body to entertain any proposition for investment, however absurd, that was tendered.²

1*b.* And if any thing more were wanted to heighten the agitation that prevailed, it was found in the acknowledgment of the South American states by this country, and the inducements held out for engaging in mining operations, and loans to those governments, in which all classes of the community in England seem to have partaken. Almost simultaneously with those speculations, arose a general desire of adventure in commercial produce, which had an effect of adding to the rising aspect of prices, of disturbing the relative values between this and other countries, and of creating an unfavourable foreign exchange, which continued from October 1824 to November 1825. The consequence was, a subtraction by the public from the Bank of gold to the amount of about seven millions and a half,

¹ See also Richards, 4,958.

² The issues in the latter part of the year 1824, for the payments to the dissentients, though justified by the state of the bullion then in the hands of the Bank, were very unfortunate, occurring, as they did, just as the speculative frenzy began to rage.

leaving in it at the latter period only about 1,300,000*l.* in bullion altogether.

Causes of the
panic.
Harman,
2,212.

The pressure for discounts during the latter part of this interval was so great upon the Bank, that, in order to provide themselves with adequate funds, they sold, in the September quarter of 1825, exchequer bills to the amount of one million. This fact was at once symptomatic of distress; and it was rendered more alarming by the delay that took place, on the part of the Government, in the usual period of advertising the quarterly repayment or exchange of the exchequer bills. The consequence was, that they fell to a discount, a circumstance in itself demonstrative of the most serious embarrassment. The Bank were then placed in this condition, that if they assisted the Government by the purchase of exchequer bills, they might endanger their own safety; and if they refused that assistance, they might put in peril the security of the state itself. Under these circumstances, it is no wonder, if the prices of all things fell in the winter nearly as much as they had risen in the spring.

2,188.

2,191.

2,189.

2,209.

III. FAILURE OF THE HOUSE OF POLE AND CO.

In addition to all these unfortunate occurrences, the spirit of commercial speculation, then so contagious, had induced some bankers, particularly the house of Messrs. Pole and Co., a firm originally possessed of very great property in the persons of the partners, but which had fallen with the circumstances of the times, to invest money in securities not strictly convertible, to a greater extent than was prudent. They were largely connected with country bankers, and in the early part of December they exhibited symptoms of weakness

Failure of
Pole and Co.
Palmer, 607.

lure of
e and Co.
Richards,
5,000.

which excited an extreme degree of alarm. "I think," says Mr. Richards, who was then deputy-governor, "I can recollect, on the first Saturday in December, having come home from the Bank, receiving a visit from two members of this committee, and one of our bankers of that class, at my own house, stating the difficulty in which a banking-house near the Bank was placed. I will not assert it, but I believe they had gone so far as to take care of the clearing of that house that evening, so as that it might fulfil its engagements. The object of that visit was to ascertain what would be my views upon the subject. I was called upon, because the governor was particularly connected with the house of Pole and Co. by marriage and other circumstances of relationship. After speaking upon the subject for some time, I was pretty sure that I could answer for the firmness of the Bank; and I ventured to encourage those gentlemen to hope, that upon any thing like a fair statement, the Bank would not let this concern fall through. It was agreed that on the following morning (Sunday) we should meet as many directors as I could get together, with the three gentlemen who had called upon me, at the house of one of them, and that, in the mean time, some eminent merchants, friends of the house, should also be called to the meeting to assist with their opinions. We so met; and after hearing all the facts which were collected, in the first instance, by the bankers and the merchants present, the directors authorised their chairs to say, that assistance should not be wanting. It was agreed that 300,000*l.* should be placed at the disposal of Pole and Co. the next morning, for which the Bank received as securities a

number of bills of exchange and notes of hand, and over and above, a mortgage on Sir Peter Pole's property, which was to ride over the whole. During that week, I believe, the attention of every man was directed much more to the state of that house than to any thing else. They fought through it till Thursday or Friday, pretty manfully; and about that time, from a conversation I had with a gentleman, a partner in the house, I was led to fear that it might fail. However, it fought on till Saturday evening; and I believe their position was then such, that without the assistance of the same eminent individuals who had taken part before, that clearing would not have gone right.

Failure of
Pole and Co.

IV. CONDUCT OF THE BANK.

“ Sunday passed, and on Monday morning the storm began, and till Saturday night it raged with an intensity that it is impossible for me to describe: on the Saturday night it had somewhat abated. The Bank had taken a firm and deliberate resolution to make common cause with the country, as far as their humble efforts would go; and on Saturday night it was my happiness, when I went up to the cabinet, to assure my Lord Liverpool and the members of his Majesty's Government then present, that all was well. That was, I believe, on Saturday the 17th of December. When that evening came, by one of those happy circumstances which sometimes occur, the tide receded, and turned from that moment. Then, in the following week, things began to get a little more steady; and by the 24th, what with the one-pound notes that had gone out, and other things, people began to be satisfied. After that,

Conduct of
the Bank.

conduct of
the Bank.

the thing got quiet; and I think, in January 1826, London and the country were getting still more tranquil. But there was an excitement from the time Parliament met in February, to its rising in June or July, which it required a vast deal of firmness and a vast deal of steadiness to control. Happily, it did succeed; and since that, I trust, under all circumstances, the thing has got into a state, which God forbid it should ever depart from."

Richards,
5,007.

In the subsequent parts of his evidence, Mr. Richards adds, "Another such week, and the country would not have stood it; in my humble judgment, the Bank could not have stood it, although we had gold coming. We hoped that it would reach us the following week; but we were subject to the winds and the waves, and every other circumstance. The sum expected was about 400,000*l.*; but, happily, events anticipated its arrival. On one of the days of that period, some members of the Government met several times at Lord Liverpool's house, when there was great reason to apprehend that the stock of gold would not be sufficient to meet the demand; and they thought, upon the whole, it would be best to pay to the last. There was a declaration by us, at the very beginning of the week, that we would do so; Lord Liverpool had asked that question; and I undertook to say, early in the week, that the Bank would pay its last guinea. When I went down to the court, they did me the honour to approve of and to support that answer; and if the necessity of the case had required it, they would have acted upon that resolution."

5,009.

5,010.

5,008.

5,011.

5,007.

V. PROPOSED RESTRICTION OF CASH PAYMENTS.

It appears, however, that about the middle of December, the Bank had suggested to the Government the expediency of an order in council to restrain the payment in gold at that period, which the Government resisted from first to last. Mr. Huskisson advised that the Bank, if their gold was exhausted, as they had reason to apprehend it would be, should place a paper against their doors, stating that they had not gold to pay with, but might expect to have it in a short time; that is to say, about the 1st of February. It is difficult to say what would have been the consequence of such a notification. The Bank very seriously deliberated upon it; and they came to a conclusion, that they could not adopt the proposition. They were not perfectly satisfied, that by the 1st of February they might get a sufficient supply of gold; and as their minds were not clear as to their ability to perform such a solemn engagement, which might be defeated by a thousand circumstances, upon that ground they declined it. The principal objection of the Bank was to bind itself to a particular day.

Restriction
proposed.
Harman,
2,224.

2,225.

2,227.

Richards,
5,043.
Harman,
2,231.

Richards,
5,043.

5,046.

VI. SERIOUS DIFFICULTIES OF THE PERIOD.

The lowest amount of bullion to which the Bank was reduced at that period did not much exceed one million. Every nerve was strained to procure gold at any price from the continent; and as it came in, the Mint worked double tides, night and day, converting it into coin. But, notwithstanding all this exertion, the credit of the country was within an ace of failure. If the Bank

Difficulties of
the period.
Richards,
5,053.
Harman,
2,226.
2,265.

2,262.

had been under the necessity of stopping their cash pay-
 ments, the merchants would have been unable to fulfil
 their engagements. A project was said to have been in
 contemplation for the postponement for a week or fort-
 night of the payment of all bills : had any such measure
 been adopted, it would only have augmented the diffi-
 culties of the period. Those who were possessed of
 sugar, cotton, or other articles, might have given an
 equivalent amount for their acceptances; but whence
 was the money to come, which would have alone re-
 stored public confidence? Persons holding foreign
 bills of exchange, which were not regularly paid, would
 in many instances have been obliged to return them to
 their correspondents under protest; those who possessed
 some of the best-supplied portfolios were in a state of
 very great alarm; and there is no doubt that if such a
 measure had been resorted to, it would have been fol-
 lowed by a total suspension of all the regular transac-
 tions of merchants, bankers, and traders. Things, in
 short, would have been in such a situation, that it is
 difficult to calculate what the result would have
 been. It is possible that a legislative restriction (which,
 after all, the Government, it would seem, was prepared
 to grant, in case of inevitable necessity), might have
 given confidence, or it might not. All that the Bank
 could have done, was to have followed the course of
 paying up their last guinea : it would then have become
 the common cause of the public. Whatever might
 have passed in the minds of individuals, no formal
 declaration was come to by the Bank, as to what ulti-
 mate measures they might adopt, if their gold had been
 exhausted. Fortunately, before that event took place,

culties of
 period.
 chards,
 5,035.

5,036.

5,037.

5,039.

5,059.

5,049.

the public mind, whether from fatigue, or from having been satisfied, had yielded to circumstances, and the crisis was over.

Difficulties of the period.
Richards, 5,055.

VII. DISCREDIT OF THE COUNTRY BANKERS.

It would appear that the first decisive shock to commercial and banking credit arose from the failure of the house of Messrs. Pole and Co. That event brought at once a vast number of country banks, which were in correspondence with it, into difficulties, and a general discredit followed throughout London and the interior. The want of confidence became so general, that there was an immediate application to the Bank for assistance upon commercial discounts, and every other species of security. The market rate of interest speedily rose to that of the Bank ; and the Bank became the only remaining resource for the country. The discredit increased to such an extent, that, although greater wealth cannot exist in any body of men whatever, almost every London banker found it necessary to provide himself, through the Bank of England, with the means of meeting the demands which arose from his depositors, occasioned by the universal distrust. The country bankers, also, who remained solvent, but who, from accidental circumstances, were in a state of discredit, were obliged to come to the Bank directly, or through their London correspondents, for specie to meet their engagements, as well as the apprehensions which they entertained of what might possibly come upon them. The greater part of the gold that was issued upon that occasion was for the supply of the country

Discredit of country bankers.
Palmer, 607.

608.

609.

275.

Harman, 2,266.

credit of
ntry
kers.
ner, 611.

bankers in every part of the kingdom, including even those of Scotland. The pressure of the time, so far as the demand for gold extended, was chiefly upon those establishments, and it arose exclusively from the holders of one-pound notes, which the country banks had then the power of issuing.

VIII. FORTUNATE ISSUE OF ONE-POUND NOTES.

e of one-
ad notes.
ner, 617.

When the Bank found a difficulty in getting from the Mint coin sufficient to meet the demand, it was recollected that there were in the house some parcels of one-pound notes, which had been signed before the passing of the act for their withdrawal. It was suggested, as the pressure upon the country banks for gold arose entirely from the holders of their one-pound notes, that, possibly, the public might receive Bank of England one-pound notes in lieu of gold. The idea was communicated officially to the Government, who approved of it. When the panic was at its height, a considerable part of these notes was sent into the country, where they were received with acclamation. At Norwich, when the Gurneys shewed upon their counter so many feet of one-pound notes, of such a thickness, it is said that they thereby stopped the run in that part of the country. Whether that issue of small notes was the cause or not, the fact was, that within a week after it had taken place, the panic vanished like a dream. No doubt, ten-pound, or five-pound Bank of England notes would have produced the same effect; but the persons making the demand were most probably holders of

ichards,
5,070.

arman,
2,269.

ichards,
5,075.

arman,
2,269.

one-pound notes only, each to an amount under five pounds.

Issue of one-pound notes. Palmer, 619.

IX. SALUTARY CONSEQUENCES OF THE PANIC.

The effect of the panic, both in London and the interior, was to depress still farther the prices of all commodities, which had been already declining, from the period of the adverse turn of the exchanges. But this very evil was itself the cause of good. The low prices in England attracted foreign customers; the gold came with them; the exchanges recovered; the coin that had been issued from the Bank began to flow back again to its coffers, in proportion as the alarm subsided; and although many noble fortunes were wrecked while this terrible storm was at its height, yet the consequences, upon the whole, have been salutary to the country. Men, in general, have been taught to exercise more caution in entering upon speculations either at home or abroad. A great number of houses, which were trading upon discounts and artificial capital, many of them no better than common swindlers, were justly swept away. The experience of that period has also, as we have partly seen, presented to the directors of the Bank certain principles of action,¹ which, so long as they shall be observed, will be likely to protect its resources from being exhausted by any demand arising exclusively from commercial discredit. Against the effects which would follow from a state of political

Consequences of the panic.

¹ Establishment of branch banks; the system of not founding their issues (in ordinary times) upon discounts; the preservation constantly of a certain proportion of bullion, and for that purpose (as we shall see) a vigilant attention to the exchanges, and the equalisation of their circulation.

sequences of the panic. See p. 741. alarm, it is impossible that there can be any security. But the precautions adopted by the Bank, as well as the suppression, both in London and the country, of one-pound notes, are likely, in all human probability, to guard the country from any panic similar to that of 1825, which arose entirely from fiscal and commercial causes.

CHAPTER IX.

PRINCIPLES UPON WHICH THE CIRCULATION OF THE BANK IS ORDINARILY ADMINISTERED — CASES OF EXCEPTION — CRITERION OF A SOUND CURRENCY — CAUSES OF ITS DERANGEMENT — MEASURES FOR EQUALISING IT — SYSTEM OF THE BANK WITH REFERENCE TO SECURITIES AND BULLION.

I. PRINCIPLES UPON WHICH THE CIRCULATION IS ADMINISTERED.

SINCE the resumption of cash payments, which can hardly be said to have been completely under the control of the Bank until after the events of 1825, and the entire suppression of the one-pound and two-pound notes in the country,¹ the rule of that establishment has been, to preserve in its coffers an amount of bullion equal to one-third of the whole of its liabilities. Thus, if we assume the circulation to be 21,000,000*l.*, and the deposits to be 6,000,000*l.*, the Bank would then, according to its present principles of management, retain 9,000,000*l.* in bullion in a period of full currency.

Admini-
stration of the
currency.

Norman,
2,392.

2,461.

The currency is said to be full when the exchanges are at par, or rather when they are on the point of becoming unfavourable, prior to the commencement of a demand for bullion. In that state of things, the circulation of the Bank is supposed to be neither more nor

2,460.

Palmer, 293.

¹ See "Summary of Law."

ministra-
a of the
rency.

mer, 293.

299.

285.

less than is necessary for the transactions of the country. The moment the exchanges become unfavourable, the fact is discovered by a demand for gold at the Bank; and as notes must then be given by the parties who wish to procure it, the consequence is, that the circulation becomes *pro tanto* diminished, and the gold obtained in lieu of the notes goes abroad. When the demand ceases, and the exchanges take a favourable turn, then the Bank is in a progressive state towards re-assuming its proportion of bullion. In May 1832, the resignation of Lord Grey's ministry having produced great agitation throughout the country, there was a drain for gold upon the Bank, arising entirely out of political distrust. Before that drain began, the bullion in the Bank amounted to about 6,500,000*l*. The total absorption of gold which took place at that period, including the sums paid on account of dividends, was near 2,000,000*l*. Nevertheless, after the drain had ceased, the bullion in the Bank had accumulated to 5,500,000*l*., in consequence of there having been a natural influx of gold during that interval, and that, too, at a very high rate of exchange.

Norman,
2,465.

But when the drain upon the Bank for gold arises from the unfavourable state of the foreign exchanges, and bullion is wanted for exportation, then the Bank would wait, under ordinary circumstances, until the exchanges should take a turn the other way, before it would replenish its coffers. If, however, an extraordinary demand arose, and continued to go on increasing, the directors, in order to provide for the safety of the Bank, would have recourse to operations for the contraction of the circulation. Thus, for instance, if they foresaw a bad

harvest, or any other circumstance likely to turn the exchanges against the country, they would, even if the exchanges were at the moment favourable, anticipate their becoming unfavourable, and make their preparations accordingly. They would, in such a case, proceed to shorten the amount of the currency in this way. The Bank is possessed of a certain number of securities, always coming into it. A considerable amount of these arises from the annuities, the dead weight, and other assets of that description. These moneys they would not re-issue. If they had silver at their disposal, they would, perhaps, as a further measure, send it to Paris, and draw against it; and, finally, if the extraordinary necessity of the case required it, they would sell all their exchequer bills, and reduce the amount of their other securities. They would not thus forcibly contract their issues in anticipation of uncertain events, or of events not likely to be of any magnitude. Their object in taking such precautions would be, to prevent sudden jerks in the currency, and to provide against the extraordinary demand they saw coming, before it was actually at their door. If they did not thus anticipate the period of the exchanges becoming unfavourable, they would have to buy gold at a very high price, and to furnish those who demanded it in exchange for notes at a low price, the Bank losing the difference upon the transaction.

Administra-
tion of the
currency.
Ward, 2,086.

2,087.

2,088.

2,089.

2,092.

2,094.

Q. 695.

II. CASES OF EXCEPTION.

It is perhaps in such an unusual case as this, that the interests of the Bank might be supposed to come in conflict with those of the public. For it might thus

Exceptions.

Exceptions.
ard, 2,095.
lmer, 684.
Norman,
2,472.
 happen, that at the period of a bad harvest, for instance, the country would have to contend not only against a scarcity of food, but also against a scarcity of money, and a reduction in the prices of such commodities as it would have to sell. Then commercial distress would probably follow, workmen would be thrown out of employment, discontent would prevail, and political as well as commercial discredit might be the result. It is obvious, however, that such consequences as these could not be guarded against, even if the whole currency of the country were metallic; and, therefore, that the only responsibility which the directors incur in executing an anticipatory operation of this serious character, is that of acting upon no datum short of positive certainty.

But when matters assume this momentous character, the conduct of the Bank becomes a question of state policy; and it is but justice to that institution to remember, that when it was within a few hours of losing all its gold, in consequence of the panic of 1825, instead of separating itself from the interests of the country, it was deliberately identified with them; and the resolution was taken, that the interests of the Bank and the nation should fall or stand together. It should never be forgotten, that all the principles of management, upon which the Bank ordinarily acts, were flung to the winds upon that occasion; and that their discounts and advances upon all sorts of securities were swelled to upwards of fifteen millions, at an hour when their bullion was reduced below one.

If, therefore, an emergency should arise, in which, referring to their general rules, the directors might deem it prudent to contract their circulation, they

would probably recollect, that no state of commercial alarm has ever yet affected the character of the Bank ; but that, on the contrary, the credit of that establishment has risen above the common credit of other bodies of individuals, at such periods, higher than at any other time. There is little doubt that, under such circumstances, the governor would communicate with his Majesty's ministers, and consult with them as to what would be the most expedient course for the Bank to adopt, with a view to the general welfare of the kingdom. There is no resolution recorded on the point, whether the directors shall wait until the demand for gold actually arises before they contract the currency ; or whether they shall anticipate the period of such demand. But there is not one person in the direction, who does not consider it a sacred duty to do always the very best that can be done, in order to preserve the principle of the currency.

Exceptions.

Norman,
2,479.

Ward, 2,095.

2,096.

III. CRITERION OF A SOUND CURRENCY.

That principle, as explained by Mr. Ward, requires that the notes of the Bank should be on all occasions the same as gold to the public. The Government have decided that a gold standard of currency should be maintained. The Bank, under its charter, possesses the power of issuing paper in substitution of that currency ; and it is therefore the duty of the directors to take care, that the public shall have no cause of complaint, by finding that some pernicious effect shall attach to the issuing of notes, which would not have occurred had the currency been confined to gold coin.

Criterion of
currency.

Ward, 2,097.

If the market-price of gold materially exceed the 2,098.

erion of
ency. Mint price (3*l.* 17*s.* 10½*d.*) for any length of time, the principle of currency, which means nothing more than that the notes of the Bank shall be always on a par with gold, is violated. The public should never have any inducement, by reason of a depreciation of the paper, to exchange it for gold. Vibrations of that kind are
d, 2,099. equally detrimental to both parties; and their interests
2,100. are equally consulted, so long as a perfect parity is pre-
2,101. served between the paper and the bullion.

IV. CAUSES OF DERANGEMENT.

ses of de- But the payment of the dividends quarterly, and
ement. occasionally the demand of the public, whether arising from political or commercial causes, will sometimes produce an action on the Bank, which of itself necessarily
d, 2,102. deranges the currency. For example, "there is now" (21st of June 1832), says Mr. Ward, "an influx of gold to the Bank greater than is required to meet the demands of the public; and I believe it will have a very pernicious effect. That influx has amounted already to two millions since March. Suppose the dividends come out on the 9th of July, and suppose those persons that have already (during the ministerial interregnum) hoarded a million and a half or two millions of gold, change their humour, and bring them back to the Bank, you will then have two millions of notes more in the market, and you will, perhaps, have six millions issued from the dividends, making eight millions. No man can deny, that such an amount as eight millions of notes brought upon the public, in addition to about sixteen that now exist, is a most inconvenient situation. But how is it to be avoided? The dividends must be

paid, and the holders of notes must have the right of exchanging them according to their caprice. If we were even to pay part of the dividends in gold, it would all come back. The party has only to open a drawing account with the Bank, and he pays in the gold, because it is inconvenient ; and he draws out notes, because they are convenient, and we cannot prevent it.”

Causes of derangement.

Ward, 2, 103.

V. MEASURES FOR EQUALISING THE CURRENCY.

The evil here alluded to, so far as relates to the dividends, has been in some degree mitigated by a measure, which has been adopted by the Bank within the last three years. Previously to that period, the public experienced almost equal inconvenience from the great scarcity of money which existed just before the termination of each quarter, in consequence of the payments into the exchequer, and from the too great abundance of it immediately after, arising from the issue for the dividends. With a view to check the drain at the one period, and the flood at the other, the Bank, within a month of the termination of each quarter, offer to the public at large any amount of notes that may be required, at what may be deemed the market-rate of interest, upon the deposit of approved bills. This plan is calculated to equalise the circulation of London as much as possible, and it has been attended with the most beneficial consequences.

Equalisation of currency.

Palmer, 256.

255.

257.

258.

During the last two years, moreover, the directors have spontaneously taken no measures for the purpose of contracting the circulation. Whatever diminution

269.

- Equalisation of currency. has occurred, has been effected almost entirely by the return of notes for gold and silver. Their policy is, to
- Palmer, 72. keep in view the foreign exchanges and the state of the
- Ward, 2,097. bullion-market, and to be prepared for the increase of their issue when the exchanges are favourable, as well as for the diminution of it when they are unfavourable; seeing that such increase and diminution would take place if there were no notes in existence. With the exception of the special circumstances above alluded to, the principle of the Bank is, when the currency is full, and the exchanges consequently at par, to invest and retain in securities bearing interest, the proportion already mentioned of their deposits, and the value received for the notes in circulation, the remainder being held in coin and bullion; the circulation of the
73. whole currency of the country, so far as the same may depend upon the Bank, being subsequently regulated by the action of the foreign exchanges. Whatever power the Bank may have with reference to the cur-
78. rency, they are very desirous not to exercise it, but to leave individuals to use the right which they possess of returning Bank paper for bullion. The exchanges
79. are in due season corrected, when left wholly in the hands of the community. If the Bank be adequately supplied with bullion, as they usually are when the currency is full, they experience no inconvenience by waiting to have the exchanges corrected by the operations of the public.

VI. SYSTEM OF THE BANK WITH REFERENCE TO SECURITIES AND BULLION.

It is another important principle with the Bank, to keep their securities uniformly at the same amount, as nearly as the same can be managed. The public are thereby enabled, without any forced operation on the part of the Bank, to act for themselves in returning notes for bullion for exportation when the exchanges are unfavourable. If the exchanges continue favourable for any great length of time, then the influx of treasure will command an increased issue of paper, which may derange the proportions. But it does not follow, that in order to rectify that disturbance, the Bank ought, upon that account, immediately to extend their issue upon securities. When, however, it is ascertained to be desirable that part of the excess of bullion so received should be restored to the continent, then it may be necessary for the Bank to act upon their system, by transferring part of the bullion into securities, still preserving the proportions of one-third and two-thirds.

System as to securities.
Palmer, 84.

85.

The amount of securities and treasure being thus fixed, if a drain commence it is allowed to go on unchecked, unless, as we have seen, some special occasion for interference should arise. The diminution of treasure is then accompanied by an equivalent reduction of circulation and deposits; and in order to prevent that reduction from lessening the accommodation which the Bank afford to the mercantile world, they contrive in that case to dispose of a portion of their exchequer

Norman,
2,392.

2,394.

System as to securities.

bills or other securities, and thus increase the fund for discount.

System as to bullion.

Palmer, 89.

Whatever the fact may be in foreign banking institutions, it is desirable that the directors of the Bank of England should retain a greater proportion of bullion than they would do, if they had merely to provide for their own circulation. The Bank being the great emporium in this country for gold, they are liable to be
 90. called upon, through the medium of the London money market, for a large supply of coin to sustain the circulation
 91. of the country bankers. Those gentlemen are possessed of so much property, and such securities, that it is difficult to contemplate any contraction of the paper circulation, which would deprive them of the power of procuring it to any amount they might require, and so provide themselves with gold from the Bank of
 139. England. The demand upon them, especially in times of discredit, might extend beyond the amount of Bank notes which they usually hold in reserve. If that amount were exhausted, and they wanted more gold
 152. coin, they would sell their exchequer bills, stock, or other securities, or have them sold in London, and thus obtain a further supply of notes for which they would be entitled to receive specie from the Bank of England. This process took place, to a large extent, in the year
 94. 1825, and very considerably reduced the resources of
 95. the Bank, independently of the foreign export of bullion.
 96. Hence it is manifest, that after every precaution which the Bank can take to keep their circulation in correspondence with the foreign exchanges, they are still liable to the other danger of having to find

bullion, for the purpose not only of meeting the wants of the country bankers, but also of allaying the apprehensions of timid men, who may wish to have in their possession more coin than they can possibly have use for in any emergency. It is this circumstance that compels the Bank to retain a larger deposit of bullion than would otherwise have been requisite.

System as to
bullion.

CHAPTER X.

OBJECTIONS TO THE REGULATION OF THE BANK ISSUES
BY THE FOREIGN EXCHANGES — NECESSITY OF PRO-
VIDING FOR THEIR CAPABILITY OF PAYING IN GOLD
— PRIVATE SALE OF EXCHEQUER BILLS — OBJEC-
TIONS TO THE MANAGEMENT OF THE BANK IN 1825
— STATEMENT OF THE GOVERNOR AS TO THE GENE-
RAL CONDUCT OF THE BANK.

I. OBJECTIONS TO REGULATION OF ISSUES BY THE
FOREIGN EXCHANGES.

Objections to
regulation of
issues by fo-
reign ex-
changes.
Dyer, 4,213.

MR. DYER admits, that he is not aware of the system upon which the Bank of England regulate their issues, "except," he adds, "it be upon the principle of making the best profit they can for their proprietors. If they have any other principle as their guide, it is not acted upon in time to shew its efficacy in preventing ruinous fluctuations in the currency." He ascribes to the mismanagement of the Bank all the vicissitudes which have occurred in the mercantile world—the improper enlargement of the country bank circulation, and the variations that have taken place occasionally in the value of money. He says that he could devise a plan by which the country could obtain a better circulation than it has hitherto possessed—a circulation, as it would seem, consisting entirely of paper that would circulate

against credits which would not circulate. But of what those credits should consist, he has not explained.

Objections to regulation of issues by the foreign exchanges.

This gentleman expresses his opinion, that if the issues of the Bank be made with reference to the exchanges, they are always made too late; but he adds, "I merely *know* that as matter of *belief*." A very considerable distinction should perhaps be taken between mere belief and actual knowledge upon a subject of this description. Dyer, 4,208.

The witness having been asked whether he thought it desirable that the currency should be contracted when the exchanges are against the country, he replied, that much depended on the state of commerce at the time; but he thought that "a contraction of the currency was not always necessary, and sometimes by no means the best way of preventing the exchanges from going against the country." The question assumes the fact, that the exchanges are already adverse; the answer contemplates the possibility of their becoming so, and asserts, that contraction would not prevent that possibility from being realised. The opinion here expressed is just, but it is no answer to the question. Contraction of the currency tends to raise prices, and of course to render the exchanges unfavourable. But when the exchanges are against the country, the Bank must draw in, unless they wish to purchase gold at a high price and issue it at a low one. 4,211.

Mr. Dyer was asked, in what mode the exchanges could be rectified when they were adverse. "I take for granted," he replies, "that in all cases when the exchanges are against the country, there is a profit upon the exportation of gold." This is a truism; 4,212.

Objections to
regulation of
issues by the
foreign ex-
changes.

for, if there were no profit upon the exportation of gold, the exchanges must either have been favourable or at par. "If there appears," he adds, "to be a profit upon the exportation of gold, it is because there is not a sufficient demand for our manufactures." This is another truism; for, if there were a sufficient demand for our manufactures, the balance of payments, and, of course, the exchanges, would necessarily be favourable to this country. "If there be a general confidence," he proceeds, "throughout the country, in the paper circulation which then actually exists, there will be no run for gold, except for exportation." Here is a third truism; for, undoubtedly, if the circulating paper be fully accredited at home, nobody will think of converting it into gold, who does not require the coin for his foreign remittances. "In this case," the witness continues, "the same cause that led to the exportation of gold,"—which cause, as we have already seen, is the want of a sufficient demand for our manufactures, or, in other words, "the cheap rate at which bills of exchange on London from abroad could be obtained,"—"would afford a proportionate extra profit on our manufactures in foreign countries, and, of course, would lead to a greater demand for them and other merchandise for exportation." That is to say, at a period, when, by the hypothesis, there is not a sufficient demand for our manufactures, they may, nevertheless, be sold at a profit abroad, and by that sale, a still greater demand may be created for other merchandise for the purpose of being sent to foreign countries! I am not aware of any rules of logic by which this kind of reasoning can be rendered consistent.

Mr. Smith appears also to be of opinion, that the Bank, with reference to their circulation, do not take notice of the exchanges soon enough.¹ He says that “they look on passively till they have seen the gold going out of the country. There is then a demand upon them for gold, and they look to their coffers. If they are not well supplied, they diminish the quantity of notes which they have in circulation, in order to prevent those notes from coming upon them to be paid in gold.”

Objections to regulation of issues by the foreign exchanges. Smith, 4,536. 4,540.

Mr. Gurney expresses it to be his conviction, that the fluctuations which have occasionally arisen in the currency are to be ascribed partly to causes beyond the control of the Bank; but he thinks that they have taken steps occasionally for the specific object of increasing the amount of their circulation, by advances on mortgage, by the purchase of exchequer bills, and by opening their doors out of the regular course for the discount of commercial paper. Those fluctuations, though disadvantageous to some, are, he thinks, by no means prejudicial to all. Variations in the value of money are not necessarily detrimental at all times to all persons engaged in commercial transactions. They may occasionally have the effect of rendering commercial speculations uncertain in their result, and of substituting a spirit of gambling for that of regular trading, but less so than is generally presumed to be the case. This witness sees no necessity for taking any steps with a view to diminish the fluctuations in the value of money; and he entertains great doubt whether any

Gurney, 3,490.

3,491.

3,492.

3,493.

3,494.

3,495.

¹ “The Bank, for several years, have always looked very narrowly at the state of the foreign exchanges.”—*Norman*, 2,392.

Objections to regulation of issues by the foreign exchanges.
Gurney, 3, 496.

3, 592. such measure is possible. Since the peace, the alterations in the value of money (in its rate of interest) have not been very extensive, with the exception of one or two instances, which occurred under peculiar circumstances. Such fluctuations, he insists, or rather fluctuations to a greater extent, must take place even although there were no paper circulation.

Easthope,
5, 799.

Mr. Easthope does not subscribe to the opinion, that it is sufficient for the Bank directors to regulate their conduct by a regard to the foreign exchanges. He thinks that this should be the last, and not the first stage to which they ought to look; and that, if they wait for its arrival, they will probably, in the mean time, occasion the ruin of an immense number of individuals. His impression is, that the Bank ought to regulate their issues in a considerable degree by the amount of their deposits. The largeness of those deposits for many years ought, he thinks, to have been viewed as evidence of a redundant currency; the Bank ought to have acted accordingly, and have abstained from making any advances which would have the effect of excessively increasing the circulation. When their deposits are accumulating, they ought to contract, considering the fact as a sign of superabundance; but when they are diminishing, the circulation is increased by the action of drawing out, and therefore it does not follow that the Bank should then also take other means to expand the currency. On the contrary, it might then likewise appear necessary for the Bank to contract, in order to prevent any ill effect from the increase occasioned by the drawing out of the deposits.

5, 803.

5, 807.

Generally speaking, Mr. Easthope continues, a re-

dundant currency leads to a fall of the foreign exchanges. In governing themselves by the consequence, they may not have overlooked the cause; but in so governing themselves entirely, they delay their controlling check too long. The witness, however, admits that the whole of this subject is attended with great difficulty in practice. He differs with Mr. Rothschild in thinking that the foreign loans produce little or no effect upon the exchanges. His impression is, that those operations increase considerably the difficulty of foreseeing the state of the exchanges; and although he does not go so far as to say that speculation upon the probability of their rising or falling would be dangerous as a rule for the management of the issues of the Bank, nevertheless, he acknowledges that it would be unsafe to lay down any one principle, and rigidly to adhere to it in a case of so much perplexity. "That," he adds, "which may [in theory] appear probable to take place at a future period, may in practice be prevented by the intervention of some other cause."

Objections to regulation of issues by the foreign exchanges. Easthope, 5,808.

5,809.

5,810.

If the course of conduct which the Bank profess to have observed, as to regulating their issues strictly by the state of the foreign exchanges, be a safe one for themselves, Mr. Easthope contends that they ought to begin at an earlier stage, for the sake of the public. He admits, that as the system now stands, they must of course look at the exchanges. But if, when they perceive a large quantity of unemployed circulation, by the amount of their notes returned to them as deposits, they take no notice of it till those notes are drawn out, and the exchanges are turned very much against this country by the speculations which have so drawn out

5,812.

5,855.

Objections to
regulation of
issues by the
foreign ex-
changes.

the deposits; they will thus, he concludes, by suddenly contracting the circulation for their own safety, ruin the speculators without notice, and the people engaged with them.

Easthope,
5,813.

It is true that deposits placed in the Bank by the payment of their own notes diminish *pro tanto* the amount of their circulation; that they are right in considering deposits as a part of their liabilities; and that the use of the money committed to their custody forms a legitimate source of profit to banking establishments in general. But Mr. Easthope is of opinion, that when the deposits of the Bank of England are increased, they ought not to restore their circulation to the same amount as it was before. Such a course he would

5,817.

5,816.

deem unsafe, with reference to the stability of the institution. There is no doubt that they might employ their deposits either by the discount of bills, or by the purchase of government securities, if the only object were to make money. But the Bank of England ought to take into account, whether, by that employment, they should be able to sustain their credit, if it were to be put to the test by any extraordinary circumstances. "That sort of employment of the deposits with banks which is proper on the part of other bankers, is entirely improper and unsafe to the public on the part of the Bank of England, and creates an amount of danger that is incalculable."

II. NECESSITY OF PROVIDING FOR CAPABILITY OF PAYING IN GOLD.

necessity of
providing for
capability of
paying in
gold.

Mr. Easthope's great objection to the present system of the Bank is, that they choke themselves up with

securities, of which they cannot avail themselves in case of need. If they could, indeed, employ their money in securities immediately convertible, then, of course, the objection would be removed. But it is difficult to say of what such securities should consist; for in time of great pressure, as, for instance, in the latter part of 1825, money could not be got for exchequer bills, India bonds, or stock. At such a time, commercial bills of exchange would be the best securities, because they expire as matter of course on a fixed day. The Bank, if managed with safety to the public interests, should be contented with small profits; they should not use their fluctuating deposits, as other bankers are necessarily obliged and fairly entitled to employ them; but should have a special reference to their capability of paying in gold when called upon.

Necessity of providing for capability of paying in gold.
Easthope, 5,818.

5,824.

5,829.

5,827.

We have seen¹ that one of the rules prescribed for the management of the Bank, is never to increase the sum total of the securities in their hands, but to keep them as nearly as possible at the same amount. Mr. Easthope states, that this rule is one mode of providing for the capability of the Bank of paying in gold when it is demanded. But a still more effectual mode for attaining that object would be, an increase of the store of bullion in proportion to the increase of the wealth of the Bank. Such a regulation as that, though it would diminish the profits of the establishment, might be fairly claimed by the Government: it would remedy one of the evils of the present system. Another of those evils would be greatly mitigated, if the Bank would

5,828.

5,831.

5,832.

¹ Page 97.

necessity of
providing for
capability of
paying in
gold.

Easthope,
5,838.

invest whatever funds they may have for that purpose more in commercial bills, and less in public securities.

III. PRIVATE SALE OF EXCHEQUER BILLS.

private sale
of exchequer
bills.

Easthope,
5,965.

5,966.

5,959.

Mr. Easthope also thinks, that whenever the Bank are desirous of contracting their circulation by a sale of exchequer bills, that sale should be conducted openly, and the object of it declared. At present, he says, "we are led to conjecture that," when about to dispose of such securities for that purpose, "they are obliged to send them into the market by all sorts of private contrivances; and this constitutes one of the objections I have to the Bank of England management. Here are twenty-four gentlemen, all connected with mercantile interests, who find it necessary, from their knowing, as Bank Directors, more about those interests than any other persons in London, to contract the Bank issues; and they then invent various private modes of doing so. This we have been led to imagine, but, whether true or not, I do not know; it is a report that has prevailed, that exchequer bills have been sold with such great privacy, that it has not been known, even in the market, that they were the exchequer bills of the Bank of England. I consider it objectionable, that any twenty-four gentlemen connected with commerce should have in their sole possession the government and knowledge of circumstances which must pervade all interests, and regulate the value of all property. I consider that every man, with common diligence, and with the common means of information, should have the same power of obtaining information about that which is connected with, and regulates the

value of his property, as those seven or eight, out of the twenty-four gentlemen connected with the Bank direction, who form the Committee of Treasury of the Bank of England. And all the means of information I possess would lead me to conclude, that, in reference to that particular point, my opinion is a general opinion.”

Private sale
of exchequer
bills.

Easthope,
5,960.

IV. OBJECTIONS TO THE MANAGEMENT OF THE BANK IN 1825.

With reference to the conduct of the Bank during the panic in 1825, Mr. Easthope says, “I believe that nobody ever described it so well as Mr. Tierney. My opinion is this, that having set the house on fire by their mismanagement, they then did all they could to extinguish the flames, in order to prevent its destroying themselves. I want more information, but, as it is, I have pretty strong grounds. In the first place, I am fortified by the fact, of every body who is held to be of authority unconnected with the Bank entertaining the same opinion. In the next place, it was obvious to us all, that the Bank, when the world was mad, and all sorts of ridiculous speculations were entered into, instead of discouraging them, and pulling up with a gentle curb, rode with a spur. They issued their notes upon mortgage, they advanced their notes upon stock, they had previously advanced very largely to the Government, to enable them to reduce the rate of interest, and also were making large payments upon the dead weight scheme—such was their course. At a time when they ought to have anticipated the effect of so large an issue in every shape and form, they kept on increasing their issue obviously in the ways I have

Objections to
the manage-
ment of the
Bank in 1825.
Easthope,
5,968.

5,969.

Objections to
the manage-
ment of the
Bank in 1825.

stated, till their own credit was endangered, and then, it is very true, they pulled up with a vengeance."

V. STATEMENT OF THE GOVERNOR.

Statement of
the Governor.
Rep. p. 69.

As a general answer to these and other objections of a similar nature, the Governor of the Bank submitted to the Committee the following memorandum.

"The reports of the Committees of Parliament of 1797, 1810, and 1819, are before the public. Whatever faults were committed prior to those respective periods, they were more the acts of the Government than the Bank, by forcing upon the latter exchequer bills, in opposition to the repeated remonstrances of the directors of the Bank.

"By the resolution of the House of Commons of 1819, the Bank were required, within four years, to pay off in gold the amount of their one-pound notes then in circulation (about 7,500,000*l.*); further, to provide the coin for paying off the country small notes in 1825 (about 7 or 8,000,000*l.*); in addition to which, the necessity was imposed of providing the requisite surplus bullion for insuring the convertibility of all their liabilities; which addition of bullion to their then stock could not be estimated at less than 5,000,000*l.*, making, in the aggregate, 20,000,000*l.* of gold, as necessary to be procured from foreign countries within the space of four years from 1819.

"That supply of gold could only be purchased by reduced prices of commodities, the Bank withdrawing a given amount of securities in the first instance, the notes for which might be re-issued in payment of the gold as imported. The low prices and general state of trade

from 1819 to 1821, and the withdrawal of the Bank's securities, enabled the Bank to cancel their small notes in the latter year; and in that following (1822), three years prior to the time fixed by Parliament, they were in a situation to furnish the gold for paying off the country small notes, when, without any communication with the Bank, the Government thought proper to authorise a continuance of the circulation of the country small notes until 1833. The consequence of that measure was, to leave in the possession of the Bank an inordinate quantity of bullion (14,200,000*l.* in January 1824), and further to afford the power of extension to the country bankers' issues, which, it is believed, were greatly extended from 1823 to 1825.

Statement of
the Governor.

“Notwithstanding that vacillation on the part of Government in 1822, and the events which followed, the Bank took no measures, from January 1822 to April 1824, to increase their circulation; the increase at the latter period was forced from the Bank by the increased amount of bullion held in 1824 over that of 1822.

<i>Bullion.</i>		<i>Circulation.</i>	
April 1824 . . .	£13,800,000	April 1824. . .	£19,300,000
January 1822. . .	11,700,000	January 1822 . .	17,700,000
<hr/>		<hr/>	
Increase . . .	2,100,000	Increase . . .	1,600,000
being less by 500,000 <i>l.</i> than the increase of bullion.			

“Between January 1822 and October 1824, the Bank only invested in securities the amount of deposits which had accumulated in their possession during that period, viz. six millions and a half; they had, in February preceding, in order to facilitate the reduction of the four per cents, engaged to pay off, in October 1824, the dissentients, under a stipulation that such advances

Statement of
the Governor.

should be repaid by quarterly payments from the sinking fund of 500,000*l.* each. This latter engagement was made when the Bank held an inordinate stock of bullion, and while the exchanges were in favour of the country; and it was not until the 18th November, 1824, that any direct evidence was afforded to the contrary. In consequence of the advances made to pay the dissentients in October 1824, the issues of the Bank were increased, in January 1825, to the extent of 1,300,000*l.*, which advance was the only amount of increase of circulation with which the Bank can be charged, but which was justified by the Bank then holding an amount in bullion very nearly equal to one-third of its total liabilities.

“ During 1825, the bullion exported, from January to November, extended to seven millions, and which, of itself, effected every degree of contraction, through the bank-notes and deposits, which could be reasonably required or endured by the public. The inconvenience finally sustained towards the close of that year, arose entirely from the discredit of the private bankers' circulation, which caused a demand upon the Bank for coin to the extent of two millions and a half.

“ Whatever charges may be made against the Bank for investments in mortgage and dead weight during the period referred to, it is to be remarked, that the advance of the first did not extend to more than half the surplus profit of the Bank, which in no way interested the public; and further, that neither the amount advanced on mortgage, dead weight, nor any other securities, exceeded the deposits which had accumulated from January 1822 to October 1824. It is further contended, that there can be no more eligible mode of

investing a portion of the assets held by the Bank than in an annuity, which is constantly upon the return; the shorter the period of the annuity, the more eligible for the Bank's object.

Statement of
the Governor.

“ Since 1826, no objection has been made against the management, except such as may have arisen from the establishment of branch banks.

“ Let the objects of these establishments be considered, as regards solidity and regulation of the paper money, upholding upon the spot the credit of the country banking and internal commercial interests, the opening of the London market rate of interest to the country capitalists, and, lastly, the increased security to the Bank, in the diminution of the risk arising from internal discredit.”

With a view to meet still more strongly the charge made against the Bank, of contributing to the excitement of 1825, a note¹ has been inserted in the Appendix, setting forth their circulation, deposits, securities, and bullion, in February 1822 and August 1824, the period in which the excitement of the following year was produced, from whatever cause, or combination of causes, it arose.

App. p. 1.

“ 1822.	
Feb. 28, Circulation	£18,665,350
Deposits	4,689,940
	<hr/> 23,355,290

“ 1824.	
Aug. 31, Circulation	£20,132,120
Deposits	9,679,810
	<hr/> 29,811,930

“ 1822.	
Feb. 28, Securities	£15,973,080
Bullion .	11,057,150
	<hr/> 27,030,230

“ 1824.	
Aug. 31, Securities	£20,904,530
Bullion .	11,787,430
	<hr/> 32,691,960

¹ It should be observed, that this note is inserted only in the copies of the report reprinted by the Bank.

Statement of
the Governor.

“ Between the above periods, the deposits held by the Bank had increased to the extent of five millions, and the Bank had only increased their deposits to the same amount.

“ The circulation was increased between the above periods by the sum of 1,467,000*l.* ; but the bullion held by the Bank was 730,000*l.* more at the latter period than at the preceding ; consequently, the Bank can only be responsible for the trifling addition of 737,000*l.*—an amount too unimportant to require notice.”

CHAPTER XI.

LONDON BANKERS—NATURE OF THEIR BUSINESS—
 FACILITIES AFFORDED BY THEM TO TRADE—NUM-
 BER OF COUNTRY BANKERS—MR. BECKETT'S BANK
 AT LEEDS—MODE IN WHICH ITS BUSINESS IS CON-
 DUCTED—EFFECT UPON IT OF THE SUPPRESSION
 OF THE ONE-POUND NOTES—MANAGEMENT OF ITS
 CIRCULATION.

I. NATURE OF LONDON BANKING.

THERE are sixty-two private banks in the metropolis, ^{London} none of which, for the last fifty years, have issued notes ^{bankers.} of their own; though it would seem that such of them ^{Q. 3,227.} as consist of fewer than six partners might lawfully cir- ^{Loyd, 3,263.} culate their own paper if they pleased. As they act entirely with the Bank of England paper, it is doubt- ^{Glyn, 3,131.} ful whether there be any limit to the number of part- ^{2,863.} ners of which London private banks may consist. They receive deposits, upon which they pay no interest. The ^{2,863.} system of allowing interest on deposits was formerly tried in London; but the houses that attempted it invariably ^{3,145.} failed. The deposits held by the London bankers are generally composed of very large sums, which are neces- ^{3,146.} sarily payable on demand; and hence they cannot be made use of to the same extent as those which are in- ^{2,866.} trusted to country bankers, and which, whenever interest is allowed, are usually left with them for a stipulated

London
bankers.
Glyn, 2,865.

period. On the other hand, in all ordinary transactions, the London banks charge no commission to their customers.

The London banks, in order to be able to meet their engagements, usually keep a large deposit, nearly equal, perhaps, to half of what they hold in reserve, in the Bank of England; a portion of their current funds they necessarily hold at home in Bank paper, and a small amount in gold. Their deposit in the Bank they consider as so many notes in their drawer, liable to be called out by the daily fluctuations in the accounts of their customers. The balances in their hands, often very large, are frequently withdrawn without notice; hence their intercourse is almost hourly with the Bank of England, from which they receive every facility.

In order to turn their funds to profit, the London bankers employ as much money as they can amongst their customers. They invest a considerably larger proportion of their deposits in bills of exchange and promissory notes, than in public securities. The city banker is, however, under a disadvantage in this respect, which is not felt by the banker at the west end of the town. The latter may, to a certain extent, depend upon the use of the money deposited with him, as his accounts are usually those of country gentlemen, and individuals out of trade; whereas, the former, whose accounts are principally those of persons actively engaged in commercial or money operations, can hardly know three days before hand what the amount of his deposits may be at any given period. The London bankers are obliged to employ their money occasionally at a very low rate of interest. In some cases, it may

have been within the last twelvemonths two and a half per cent ; but the average has been from three to three and a half, and it has fairly kept at that rate. The highest rate has been four for short bills, but five has been charged for bills of twelve or eighteen months.

London
bankers.
Glyn, 2,915.

II. FACILITIES AFFORDED BY LONDON BANKERS TO TRADE.

The fluctuations which take place in the currency operate little or nothing upon the extent of accommodation afforded by the London bankers. They frequently allow a customer, if he be a respectable trader, to overdraw his account, merely upon the opinion they have of his good character. It almost daily happens, that a customer of known property comes to them and says, " Put 5,000*l.* or 10,000*l.* to my account ;" and they must always be prepared to meet a demand of that nature. The mode in which the business of London is conducted (with the Bank of England as the bank of issue, and with private bankers as the channels through which the necessary accommodation is given to the different commercial interests) is, according to Mr. Glyn, as good a system as can be devised. " Instances," he says, " occur every day, in which it would be impossible for the first mercantile houses in London to deal with the Bank of England, or with a joint-stock company. They come often to ask for loans, for the purpose of executing orders received from abroad, for the export of bullion and other commodities. They communicate confidentially with their private banker ; but they could not follow this course, or make these

Facilities to
trade.
Glyn, 2,927.

2,938.

2,939.

2,942.

3,083.

facilities to
trade.

communications to the directors of a joint-stock bank, some of whom might probably be their rivals in trade, and in these operations. Again, among the second class of traders, we are obliged to proceed often upon the knowledge we have acquired of their business and character, a system upon which a joint-stock company could not act; and I consider that if these modes of accommodation were withdrawn, the distress among many of the traders in London would be extreme, and the impediments to business insuperable."

III. NUMBER OF COUNTRY BANKERS.

Country
bankers.
pp. No. 98.

According to the number of licenses granted to country bankers, from the 11th of October 1831 to the 26th of June 1832, it would appear that there were during that period six hundred and thirty-six private establishments in the interior of the country, which issued their own notes. The number of the licenses is, however, an imperfect criterion as to the number of country banks issuing notes, because, in those cases where the same banker has several branch establishments, he is obliged to take out a license for each branch, as well as the parent bank. Many, moreover, appear in the list of bankers who are not actually bankers, though they take out a license to issue notes. In the town of Trowbridge, for instance, there were at one time nine or ten licensed bankers, and only one substantial establishment carrying on banking business. Neither would the number of licenses annually granted by the Stamp Office shew the number of country bankers who do not issue their own notes, and who act exclusively

Burgess,
5,154.

5,175.

either with the paper of other country bankers, or with that of the Bank of England. Country bankers.

It is the opinion of Mr. Burgess,¹ that the number of principal establishments which carry on banking business in England and Wales, exclusively of joint-stock companies, may be estimated at about three hundred and sixty. As their mode of operation depends very much on local circumstances, it will be necessary to consider the evidence given before the committee with reference to country banks, as applicable chiefly to the establishments therein described, although the usages mentioned by the different witnesses, in some instances, may be assumed to be pretty general. Burgess, 5,156.

IV. MR. BECKETT'S BANK AT LEEDS—MODE OF CARRYING ON BUSINESS.

Mr. Beckett's bank at Leeds² issues local notes not payable in London, by delivering them to their customers, viz. merchants, and others who keep accounts with them; they advance them, also, for wages, and under a variety of other circumstances, upon cash checks. They discount few bills, except for their customers. They put out money on loan upon a variety of securities, both real and personal; also upon deposits of deeds, and upon the characters of the parties, chiefly merchants and manufacturers, who are desirous of borrowing, and who keep accounts with them. The money thus advanced often remains owing a very long time, being frequently merely added to the open ac- Bank at Leeds. Beckett, 1,234 to 1,457.

¹ Secretary to the Committee of Country Bankers, which was formed by Sir John Wrottesley in the year 1827, for the protection of their interests.

² His bank has been established about fifty-eight years.

Bank at
Leeds.

count of the customer, and varies occasionally, according to the accommodation which he requires from the bank.

They allow interest at two per cent upon all deposits which remain in their hands six months; they pay no interest on deposits for a shorter period. They take in deposit, at interest, any sum, however small, in order to accommodate the middling class of people. If the deposits be left beyond six months, interest is allowed also for the extra time; but after the expiration of that period no notice of withdrawal is required, and the sums are then payable on demand. It is understood, that if, without entering into any previous stipulation, a party deposit money with them, and leave it there for more than six months, he is entitled to interest. Where a depositor has also a drawing account, the balances are regulated every six months, and the interest due upon the average is placed to his credit. Upon a mere deposit account,¹ no commission is charged; but upon a mercantile current account, that oscillates backward and forward, a commission is invariably charged of a quarter per cent; and if the commission on what is drawn exceed the interest accrued upon the deposits, it is made a charge in account. Where there are a deposit and drawing account, the average of deposits on which interest is allowed is estimated in this way. The dates are taken, on the one hand, in which the money is paid in; and on the other, in which it is drawn out; both

¹ It is not called a deposit account, unless it be free from variation. A deposit is a sum that is placed in the bank, and taken away again in one sum. But if the account varies, a commission is charged for the trouble of keeping the entries in the books, and calculating the accounts. 1272.

are then calculated to a particular day, the 30th of June, for the one half year, and the 31st of December for the other half year, and interest is allowed upon the balance.¹ The commission on the drawing account is deducted from the interest allowed on the deposit account. And if the balance of a week's account were 1,000*l.*, but the number of drafts drawn in the course of the week amounted to 6,000*l.*, the 5*s.* (or quarter) per cent would be charged upon the 6,000*l.*, that is, upon the whole amount of drafts in the course of the week.

Bank at
Leeds.

The circulation of the bank in question is not equal to one-fourth of the total amount of their deposits, including both the deposits on the drawing account, and those on lodgments. Their circulation, however, has only been a subordinate part of their business, merely for the purpose of supplying wages, and the wants of customers who apply to them for ordinary expenses. The portion of their funds not employed in discounts and advances, and not reserved in specie and Bank of England notes against their circulation, they invest in Government and other available securities in London.

¹ In order more fully to illustrate this practice, the following question and answer are subjoined. "1,311. Supposing a person deposits with you 1,000*l.* upon the 1st of January in a given year, and suppose that he draws five drafts for 100*l.* each on the third day of each of the first five months, the first draft being on the 3d of January, those five drafts amounting to 500*l.*, and that he leaves the remaining 500*l.* in your hands till the end of the year; what would be the sum he would have to receive from you by way of interest, after deducting the charge for commission?"—"Interest is allowed upon each sum; interest would be allowed upon 900*l.* for one month, upon 800*l.* for two months, and so on till you get to the end; and then, before you credit the interest, the commission of 5*s.* per cent would be deducted." The witness further stated (1,310), that the practice described in his evidence, with respect to the payment of interest on deposits, and the charge of commission upon drawing accounts, is the general practice of other banks in the north of England.

Bank at
Leeds.

Whenever their circulation or deposit undergoes a contraction, they have recourse to those securities, in order to meet the drain upon the Bank. Their circulation is seldom much enlarged or contracted, never to the extent of one half, from one year to another, as compared with the previous years. Their operations, as well as those of the other banks at Leeds, have contributed materially to the growth of the trade of that town. They have not merely afforded the accommodation of the exchange of paper, but have, by making advances, considerably extended the transactions of its manufacturers and merchants. Latterly (June 1832), the state of its trade has been by no means prosperous. The profit derived from the employment of capital in manufactures at Leeds is less than it used to be. The number of small capitalists is increasing, and the making of cloth is reverting to the villages, and becoming again a domestic manufacture. Hence, there is much more competition than formerly, which has a tendency to reduce profits. The persons who are actually employed, are pretty well paid; but the proportion of those who are unemployed is becoming larger every year, and there is a growing poverty amongst the labouring population. The traders generally, with some few exceptions, are less wealthy than they had been some years back. It would be impossible for them to pay the working manufacturer his weekly wages without the assistance of the local banks; and if those establishments had not been issuers of notes, they could not have given the same extent of accommodation to the trade of Leeds as they have done. If the banks were obliged to abandon the issue of notes, it would

put them to considerable inconvenience; but still, says Mr. Beckett, "I think *we* should be able to afford about the same accommodation which we give at present, as our accommodation does not depend mainly upon our issue of notes."

Bank at
Leeds.
Beckett,
1,298.

The banks at Leeds advance a great proportion of coin, as well as notes, to the manufacturers, for the purpose of enabling them to pay wages—perhaps three-quarters in gold and the rest in their own paper. If, by any possible accident, all the banks there were to cease to pay, it would be impossible that the manufacturers could go on. They issued one-pound notes prior to 1826, which were not altogether withdrawn until April 1829, in compliance with the act.¹ Prior to 1826, their issues of one-pound notes exceeded those of notes above that sum; the former having then constituted considerably more than half their circulation. They were at that period in the habit of paying for wages in one-pound notes, what they now pay in gold and five-pound notes. But they still afford the same facility, and feel quite the same readiness to make advances, under the present system of currency, namely paper and gold, that they did when they issued one-pound notes.

The decline that has taken place in the trade of Leeds, so far as profits upon capital are concerned, is, however, consistent with the fact of increased production; and that decline is in no way to be attributed to the system of banking, or to the state of the circulating medium. The uncomfortable condition of industry which now exists there is not a consequence of the

¹ See "Summary of Law."

Bank at
Leeds.

suppression of the one-pound notes, nor of any change that has taken place in the system of banking, or in the currency. Mr. Beckett says, that the bank with which he is connected do not refuse advances upon good security to any body in Leeds who applies to them. Nor are there any persons there, of respectable character, having any claim to credit, who fail to obtain it. Advances are made upon personal security; and if that be not deemed sufficient, some other security, collateral or personal, or the deposit of deeds, is required. Sometimes the loan is for a limited time, sometimes upon a current mercantile account, for the closing of which no stated period may have been stipulated.

V. EFFECT UPON MR. BECKETT'S BANK OF THE SUPPRESSION OF THE ONE-POUND NOTES.

Suppression
of one-pound
notes.

With reference to the effect of the suppression of the one-pound notes upon the circulation of the bank under consideration, it appears, that although notes of that amount constituted more than half of that circulation prior to 1826, the latter has not been diminished in the same proportion. The reduction, upon the whole, may be estimated at about thirty per cent, the difference having been supplied by an enlarged issue of five-pound notes. Their accommodation to the trade of Leeds has not, however, been at all affected by this circumstance; nor has the suppression of the small notes obliged them to increase their store of gold very materially. The place of those notes has been supplied by gold, but with the addition of five-pound notes, the gold being perhaps equal to the thirty per cent reduction that has taken place in the circulation of the bank local paper.

Nor has the circulation of Leeds been at all assisted by any increase in small bills of exchange ; these, on the contrary, have much decreased, from the stamp being so heavy upon them. Suppression of one-pound notes.

It would seem, reasoning generally, that if the amount of notes kept in circulation by any one bank has been reduced thirty per cent, there must have been a corresponding diminution of the capital which those notes produced, in the accommodation given to the trade of the place. But Mr. Beckett states, that the small notes bore so slight a proportion to their general business, that the reduction has not affected the extent of that business in any way. They keep about the same reserve as formerly of specie and bank-notes to meet their circulation ; the specie being in the proportion of about one-seventh, and the whole reserve, including the Bank of England notes, being equal to more than one-half their total circulation at any period. They retain that proportion of specie and Bank of England paper, however, to answer not only their notes, but also the calls upon their drawing and deposit accounts. In addition to their specie and bank paper, they hold also by them bills of exchange, bankers' drafts, and paper of that description not due, in which their payments are very commonly made.

VI. MANAGEMENT OF CIRCULATION.

In the management of their circulation, the bank in question make not the least reference to the foreign exchanges. They regulate its amount simply by the wants of their customers ; and that is the general practice of the other bankers at Leeds. Considering that Management of circulation.

Management
of circulation.

the issues of their local notes are made chiefly for the purpose of paying wages, and not for mercantile transactions generally, it is presumed that such a system cannot be carried to any injurious extent. The accommodation to the trade of Leeds, in the way of discount, is given, not in local notes, but in Bank of England paper; the former, not being payable in London, would not answer the purposes of the parties. Whatever increase or decrease takes place in the circulation of their local notes, is governed more by the ordinary transactions of trade than by any thing else. But they confine it entirely to local purposes; and not wishing to issue their notes to any great extent, they would, under no circumstances, for instance, pay a man 1,000*l.* in their own paper; they would give it to him in that of the Bank of England.

In the years 1823 and 1824, there was undoubtedly a general increase of country-bank paper, although, for the reasons stated, that of the bank here spoken of was not then augmented above ten or fifteen per cent. In consequence of these great issues, many country banks were placed in a state of difficulty, and finally obliged to stop payment, when the general panic arose, and demands were made for payments upon deposits and other liabilities which they were not prepared to meet. It is not considered that that panic was created in any degree by the manner in which the country banks managed their issues; though it was certainly increased very much by the failure of a great banking-house in Yorkshire, which had several establishments, and conducted its business upon no one principle of common sense or common safety.

There is only one house at Leeds which issues notes (but only in a small proportion) payable in London; all the other banks there confine themselves to notes payable only at their own establishments. If they were to discount largely with their own paper, they would be no gainers by it, it would return so quickly upon their hands. This system of banking prevails in general in Yorkshire, where a great part of the business is done by means of bills of exchange. It does not arise from any unwillingness upon the part of the people to take the local notes of bankers, but from the choice of the bankers themselves. There is nothing to prevent any person, or set of persons, from introducing a system of banking into that county, founded upon the plan which is carried on elsewhere, that of dealing principally in their own notes. It is not likely, however, that such an establishment would obtain much credit. Supposing they were to solicit business by reducing the rate of discount to three per cent, seeing that the expense of circulation would be about one and a half per cent, they could not embark in such a concern with profit to themselves, or any very great service to the community.

It is Mr. Beckett's opinion, that the establishment of the branches of the Bank of England adds to the safety of banking in the country, and is advantageous to the public.

CHAPTER XII.

MR. SMITH FORSTER'S BANK AT WALSALL—HIS MODE OF CONDUCTING BUSINESS — HIS STATEMENT OF THE EFFECT OF THE POLITICAL ALARM IN MAY 1832 UPON BANK OF ENGLAND PAPER AT WALSALL—HIS OPINION OF THE INFLUENCE OF THE BRANCH BANKS, WITH REFERENCE TO THE PRIVATE BANKS AND THE GENERAL TRADE OF THAT DISTRICT—HIS ARGUMENT IN FAVOUR OF COUNTRY BANKERS CONTINUING TO ISSUE THEIR OWN NOTES.

I. MODE OF CONDUCTING BUSINESS.

Mode of conducting business.
Forster, 1858 to 1878

It appears from the evidence of Mr. Smith Forster, banker at Walsall, in Staffordshire, that about one-sixth of his liabilities belong to his paper circulation, and the remainder to deposits from his customers. His notes are payable in London. The amount of his issues is regulated by the demands of his customers. In deciding on his discount generally, he refers to the state of the foreign exchanges ; but by far the largest portion of his discounts is effected by means of cash transfers, the part discounted in his own paper being very inconsiderable. The issue of his own notes is with him a secondary consideration, in reference to business transactions. A party who presents a check at the banking-house has his option in what mode he will receive

it: if he require notes, notes are given him; if he require gold, gold is given him. But the practice of his establishment is, not to issue Bank of England notes; he is rather singular in that respect; but as he considers the Bank of England as rivals, since the establishment of the branches, he has discontinued circulating their notes. He makes a point, however, of being at all times prepared to pay in gold his own notes, which are of various denominations in order to meet the wishes of his customers. If they be dissatisfied with his paper, the option is offered them of the lawful coin of the realm. There is a branch bank in the neighbourhood whose circulation is considerably above his; there are also several private bankers near him who issue notes, some to a larger extent than he does, all payable in London. The other bankers circulate also the Bank of England paper, of which they generally keep a store. His refusal to act upon that principle has not interfered with the amount of his transactions. It was objected to at first, but he endeavoured to make it palatable to his friends by giving accommodation in other respects, and he has succeeded in maintaining it.

Walsall is a large manufacturing district. The local notes are issued there for the payment of workmen's wages principally, and for every transaction in life that requires the use of money. The advances given to manufacturers for the payment of wages are made in notes and gold, the latter being in a proportion of one-half or two-thirds. Prior to 1826, Mr. Forster issued one-pound notes to the extent of about half his whole circulation. When he first established the regulation of keeping his reserve entirely in gold, the proportion of that

Mode of conducting business.

Mode of conducting business.

reserve was about one-third of his circulation ; latterly, his reserve has been less, as he has found the means of getting a supply of gold within a short distance, at a less expense, and more conveniently, than by having it from London. He has a depôt of cash in another place : he does not use the branch bank for the purpose of obtaining specie when he requires it.

II. EFFECT OF POLITICAL ALARM ON BANK PAPER.

Effect of political alarm on bank paper.

Mr. Forster mentions a striking circumstance which occurred in Staffordshire during the ministerial interregnum in May last, with reference to Bank of England notes. During that period, he states, "there was the greatest distrust upon the part of the public, in the town and neighbourhood where I resided, of the Bank of England and its notes ; and the consequence was, those notes were brought in very frequently for exchange ; the practice became so frequent, that we made a charge of commission ; still it increased : I ordered that commission to be doubled, and I believe that if I had ordered it to be doubled again, the charge would have been readily paid. At that time, the Bank of England notes were very much inferior in credit to my own notes. That mistrust was founded upon two reasons. The inhabitants of the district knew, in the first place, that my notes were more easily convertible, because a walk of a few minutes would procure gold for them ; while, for the Bank of England notes, they must travel to the branch ; and they had some doubts, whether, at the branch bank, they should obtain the payment of any notes but the notes of that particular branch. And connected with that there was another

reason, which I found prevailing among rather intelligent people. The parties reasoned in this way : they said, the Government is in jeopardy ; if it should be overturned, as the Bank of England is mixed up and identified with it, it will fall with it. But the country bankers, possessed of great opulence and prudence, we conceive may survive the revolution ; therefore, we adopt a safer plan in keeping the notes of our neighbours answering that character, than in keeping those of the Bank of England. No doubt, this feeling was partly caused by persons of strong political opinions, who thought that they were promoting the success of those opinions by pressing their demands against the Bank ; but it more frequently arose from the fears of individuals. Those demands, which continued for six or eight days, were made, in some instances, by persons of the middle class ; generally, however, by those of the lower classes of life. One remarkable instance occurred, where the inconvenience arising from the mistrust of the Bank of England was very great. A private banker, who had formerly issued his own notes, and had lately given them up and issued Bank of England paper, informed me, that some parties to whom he had paid Bank of England notes brought them back, and begged that he would exchange them for gold. That he declined to do. This refusal increased the mistrust ; and there were offers of premium made, as an inducement to get gold for them in exchange."

Effect of political alarm on bank paper.

III. INFLUENCE OF THE BRANCH BANKS ON PRIVATE BANKS AND GENERAL TRADE.

influence of
branch banks

The Bank of England paper was known to a very small extent in that neighbourhood until the branches were established: it has now become nearly the universal circulation; many of the private bankers, at least one half, having substituted it for their own, in consequence of advantages which they have received, by way of compensation. That proportion has a tendency to increase; and the opinion decidedly gains ground, that it is more for the interest of the country establishments to use the Bank paper than to circulate their own. In this opinion, however, Mr. Forster does not coincide. He conceives the establishment of the branches to be injurious to his interests. He thinks that there are advantages attending the circulation of country bank-notes which are not obvious to all country bankers; that it gives them a sort of *éclat*, answering the purpose of the address card of a tradesman, making the Bank notorious and a subject of conversation, and attracting to it deposits and customers. It is his impression, that when a banker abandons his circulation, he degrades into a bill-broker, and particularly when he re-discounts his bills with the Bank of England. When he issues notes, and pays those notes honourably, he retains a much more important station in the commercial world. When he discounts bills with the paper of another establishment, and sends his bills to that establishment, he becomes their mere agent.

The branch banks have taken away many of their customers from the private banks, and have compelled

them to diminish both their commission and their rate of discount. They are frequently obliged even to discount without any commission, and under the Bank of England rate. Before the establishment of the branches, they discounted at five per cent; but now they discount at various rates, down to three and a half, and in some cases to three per cent. The introduction of the branches has contributed to put down private banks, although, in point of fact, the latter give more accommodation to trade in the way they deal than the branches. These establishments, however, have not materially diminished the means of the private bankers for affording accommodation, because the latter have not felt that reduction of deposits that might have been expected.

Influence of
branch banks.

Undoubtedly, if the number of private banks issuing their own paper were to be seriously lessened by the introduction of branches, that circumstance would eventually limit the accommodation now afforded to trade. They cannot engross the whole circulation of the country as long as the private banker has the power and the inclination to issue his own notes. Nevertheless, they are advancing towards that object; and if they accomplish it, the results will be attended with great injury to the trading interests. As a general system, it would be still more detrimental. A paper circulation is much more beneficial when there are fifty depôts of gold than when there is only one. The notes issued by private bankers, payable by them at their various establishments, are more readily convertible into gold than the notes of any branch Bank of England, which would extend for fifty or a hundred miles from

Influence of
branch banks.

that branch. It would give the public less opportunity of converting their notes into gold. It would, moreover, expose the Bank of England to sudden drains for large quantities of gold, because, when once a difficulty occurred, alarm would follow; and it might, consequently, contribute to produce the necessity of having recourse to a suspension of cash payments more frequently than under the former state of things.

The trade of the neighbourhood of Walsall, which is principally in iron, has been for some time in a state of depression. The large iron-masters have heavy stocks on hand; and it has been, unquestionably, a considerable relief to them to be able to borrow capital at the moderate rate of three and a half per cent, instead of five, as formerly. Although this change has been injurious to the country banker, it has been advantageous to trade; and the branches must be allowed this merit, that they have arrested the progress of insolvency which was spreading in that neighbourhood, and have alleviated the difficulty that pressed formerly upon the iron-masters and men in a distressed situation, as far as relates to the charges on their business. They have thus been enabled to meet the very low prices to which they have been compelled to submit. On the other hand, this facility of obtaining capital has a tendency to increase production; and the lower rate at which articles can, for that reason, be manufactured, may possibly be over-compensated in consequence of the glut created by the additional quantity.

The scale of charges made by the branch banks is one upon which private banking business could not in general be profitably conducted. It is not an advantage

that banking profits should be reduced below a remunerating rate. The Bank of England, however, have a profit upon the circulation of their paper which the private banker would not have; their notes remain out longer, of course, than those of the private banker, and they give no interest upon deposits; so that any thing they receive in the shape of discount, be it at the rate of four, or even three per cent, is profit, with the exception of the expenses of their establishment. These are advantages which private bankers have not. In point of fact, the branch system is an interference of very large capital, applied with small profit, against the capital of private individuals, who have altogether to depend upon the profits which that capital is capable of producing. No private banker of substance would be disposed to continue banking, if he were confined to the rate of charges which the branches have adopted.

Influence of
branch banks.

In consequence of the distressed state of trade, the iron-masters and great dealers in the neighbourhood of Walsall are not in the same degree of credit in which they were before the establishment of branch banks. The fact of the establishment of the branches has had nothing to do with the distressed state of trade; but it has the effect of disinclining the private bankers to accommodate those persons. "We consider," says Mr. Forster, "that as the branch is the shop to which they naturally go, if they come to us there must be some bad reason for it."

The witness was asked, "Is not the tendency of the branch system to place you and other banks upon the footing of London private banks?" to which he answered, "The business is so different in the country and in Forster, 1, 574.

influence of
branch banks.
Forster, 1,577.

London, that I can hardly answer that question in the affirmative." He was further asked, "Would you wish to have it insisted upon that there should be no establishment of branch banks?" and his answer was, "Certainly not."

IV. ARGUMENT IN FAVOUR OF COUNTRY BANKERS CONTINUING TO ISSUE THEIR OWN NOTES.

Argument in
favour of
country-bank
notes.

The prosperity of the district in question (when it was prosperous) has been mainly assisted by the local banks. Without their assistance, wages could not have been paid to the working classes. They allow two and a half per cent interest upon such deposits as remain with them, subject to a notice before they can be withdrawn. Their accommodation is afforded by discount and loans; their own circulation, though comparatively small, is of more value to them than its mere numerical proportion, because it contributes to increase the operations which arise from deposits. If they were to surrender their own paper, they could not give the proportion of accommodation to the neighbourhood which they are now able to afford from their deposits. Their deposits would be lessened, because, by ceasing to circulate their own notes, they would sink in the scale of commercial importance. The issue of notes brings parties to the banking-house, who come there to have their paper changed, and frequently to get paper in exchange for gold, and that leads to other business. There are a number of other circumstances all leading to the same point. The Bank of England itself, if it ceased to issue notes, would be of much less importance than it now is. Even if the deposits of private bankers were

not diminished below their present amount, they could not accommodate the neighbourhood to the same extent as they now do, unless they continued to circulate local notes. Those notes being always at hand, the privilege of coining enables them to comply with the request of a customer at an instant—a privilege which is the more necessary to them, as their practice is to keep as little money unemployed as possible, their deposits being usually sent to London, or wherever they can be advantageously invested. Supposing an extra demand arises in the country at a higher rate of discount than prevails in London, they then discount their bills in London, or wait their coming into cash, and employ it in the country. The power of making notes enables them to carry on both systems at once, because the time they gain by the circulation of the notes enables them to get the London bills paid, so as to meet the extra demand in question.

Argument in
favour of
country-bank
notes.

CHAPTER XIII.

MR. PARRY WILKINS'S BANKS IN SOUTH WALES, HIS METHOD OF CONDUCTING BUSINESS—CIRCULATION OF HIS BANKS—MODE IN WHICH COUNTRY BANKS IN GENERAL REGULATE THEIR CIRCULATION—CONSEQUENCES THEREOF—INFLUENCE OF THE BRANCH BANK OF ENGLAND IN SOUTH WALES.

I. MODE OF CONDUCTING BUSINESS AT
MR. WILKINS'S BANKS.

Mode of conducting business.

Wilkins,
1,579—1,881.

MR. PARRY WILKINS has two banking establishments—one at Brecon, commenced in 1778; the other at Merthyr Tydvil, in South Wales, both of which issue their own paper (principally of the amount of five pounds) on bills and promissory notes. Bank of England notes are at hand for any person who requires them, but checks are paid only in their own paper, which was formerly all payable in London, but latterly only in the country—an impolitic change, that has tended to confine their circulation. Since the establishment of the branch bank at Swansea, they have reduced the amount of the reserve which they usually hold as a provision against their issues, to the extent of one-half of the amount which they held before the restriction on cash-payments, as they now can have any sum they may want at twelve hours' notice. Their deposits of every description are nearly twice the amount of their circu-

lation. Upon such portion as is pledged to remain in their hands six months, they allow interest at the rate of three per cent per annum. They require no notice for the withdrawal of deposits. Upon drawing accounts they seldom give interest, and they charge no commission, unless the account be overdrawn, deeming themselves sufficiently compensated by the balance that is kept. The Merthyr bank affords accommodation chiefly to iron-manufacturers on their trade bills. The persons to whom the establishment at Brecon makes advances are generally of the agricultural class, who give joint promissory notes payable to order. These notes are sometimes payable in London; but, though negotiable, they are not negotiated, as for that purpose they would require the endorsement of either bank, which Mr. Wilkins does not usually permit to be given.¹

Mode of conducting business.

II. CIRCULATION.

The circulation of both banks was, in 1818, 89,000*l.*; 1819, 113,000*l.*; 1820, 98,000*l.*; 1821, 96,000*l.*; 1822, 75,000*l.*; 1823, 83,000*l.*; 1824, 87,000*l.*; 1825, 113,000*l.*; 1826, 123,000*l.*; 1827, 124,000; 1828, 120,000*l.*; 1829, 90,000*l.*; 1830, 60,000*l.*; and in 1831, 52,000*l.* The marked increase in 1825 arose from the circumstance of Mr. Wilkins having exchanged his notes, at the request of the parties, for those of another country bank (the name the committee have suppressed), which appears to have been extremely

Circulation.

¹ It is not an unusual thing for a country banker to re-discount bills in London, which he had discounted for his customers in the country, but it is not considered by any means to be the act of a banker of first-rate character and conduct. It is certainly not the general mode in which country bankers transact their business.—Loyd, 3,288-9.

Circulation. liberal of its issues in 1825. The notes were taken into South Wales by drovers in great numbers; but not being so well known there as those of the Brecon bank, Mr. Wilkins, who acted with great caution in that year, issued his in exchange for them¹, as they were payable, and were, in fact, all duly paid in London. His transactions were augmented in 1826, 7, and 8, by the failures of other banks in his neighbourhood, and the sudden decrease, in 1829, from 120,000*l.* to 90,000*l.*, was caused by the withdrawal, in the February of that year, of the one-pound notes, which formed half of his whole circulation. It was a great misfortune, he thinks, that any day had been named for putting an end to them. If all those which had been previously issued had been suffered to wear themselves out, and to die a natural death, the mischief would not have been so great. Many ignorant persons supposed, that on the 5th of that month they were obliged to bring them in; and, in consequence of that erroneous opinion, he had to withdraw from his circulation no less than 30,000*l.* within a very short period. The subsequent decline in the amount of his circulation was caused in no degree by the foreign exchanges, "which," he says, "had no more to do with it than the last year's snow." Neither was it produced by any contraction of the circulation of the Bank of England, although he observed, that such contraction had in some instances affected his paper.

¹ The country bankers generally take each other's notes, even when not expressed to be payable in London; and exchange, some weekly, some once a fortnight, and they pay the balance in London, on demand, or as may have been agreed upon. When notes beyond a certain distance are taken, the bankers sending them agree to receive in return a bill at twenty-one days or more.—Wilkins, 1,693-4. Some country bankers exchange their notes by drafts on the Bank of England at sight.—Glyn, 3,060.

The reduction in question arose chiefly from his having declined to afford the accommodation, both to the manufacturing and agricultural population, which he used to give before the suppression of the one-pound notes. Circulation.

South Wales is a breeding country, and many of the drovers who carried on the trade of supplying the feeding counties in England, went to the Brecon bank for accommodation, to enable them to make purchases at the fairs. In general, they were accompanied by some known responsible person, and sums of 1,000*l.* and 2,000*l.* were lent to them for three months. Without such assistance they could not have conducted their business, and from the want of it, latterly, several of them have been obliged to abandon the trade. The capital created by the one-pound notes put it in the power of the banker to make such advances with facility. But it would not be worth his while, after that facility was taken away, to draw his money out of the funds, or from mortgages, in order to lend it to those persons at five per cent, incurring at the same time a heavy risk. Mr. Wilkins has, in consequence, diminished his accommodation to the drovers full four-fifths, comparing his highest with his lowest amount of circulation. Great distress was the consequence among the farmers of Carmarthenshire, Cardiganshire, and Pembrokeshire, until lately. New people, apparently with fresh capital, consisting of good bills of exchange and Bank of England notes, have recently appeared in the market. The fairs have gone off better, and prices have improved. But there is still a great want of cir-

Circulation. culating medium in those countries ; they would absorb twice as much as they actually possess.

For the same reason, and also on account of the great depression of the iron trade, which forms the staple of the Merthyr district, the circulation of the bank there has been considerably reduced. Such is the discredit affecting that trade at present, that an iron-master, although he might get accommodation on the security of good bills, would not be allowed to overdraw his account. There is an immense stock of iron on hand, produced chiefly by the capital of the proprietors, and the trade is still declining. It is much affected by the competition of a similar trade in Staffordshire. If prices were sufficiently high, Merthyr would produce iron in sufficient abundance to supply the world.

III. MODE IN WHICH COUNTRY BANKERS REGULATE THEIR ISSUES.

Issues of
country
banks.

It is the opinion of Mr. Wilkins, that no country bankers regulate their issues by any reference either to the foreign exchanges or the circulation of the Bank of England ; they are governed entirely by the demand for their notes, which they issue at all seasons whenever they can do so with advantage, upon good security. They are aware that an unfavourable foreign exchange will reduce the circulation of the Bank of England, that this contraction will be followed by a reduction of prices, and that a reduction of prices will necessarily influence the circulation of their own paper ; because, when prices are low, fewer notes are required. But

they do not pay any attention to that circumstance. They are guided only by their own respective interests, each endeavouring to withdraw as much of his neighbour's paper as he can, and to substitute his own. A good deal of their facility of issuing paper arose, however, from the power of creating one-pound notes, which no longer exists.¹

Issues of
country
banks.

IV. CONSEQUENCES OF COUNTRY-BANK ISSUES.

There is no doubt that country banks, by acting on that rule, might issue, and have actually issued, to excess, and that such excess contributed to the failures of 1825. If any mode could be devised, by the adoption of which a banker might understand the extent of danger to which he would expose his property by issuing beyond a certain amount, it would be eminently beneficial. But when one banker has a capital of four or five hundred thousand pounds, another a capital of fifty or twenty thousand pounds, and another none, it is difficult to know how any uniform rule could be established on the subject. If a spirit of over-trading be prevalent, and if every person who thinks proper to embark in it can obtain money with facility at the country banks, it is clear that the consequence must be a re-action, which will lead to a fall of prices, and to all the evils of a panic.

Consequences
of country-
bank issues.

Mr. Wilkins illustrated the facility with which country banks have sometimes issued their notes, by refer-

¹ It is the opinion of Mr. Carr Glyn, a London banker, whose extensive correspondence with country bankers gives great weight to his testimony on this subject, that the suppression of the one-pound notes has contributed materially to the improvement of those establishments; and that, generally speaking, they are at present in as healthy a state as they have been in for a long time.—3,075-6.

Consequences
of country-
bank issues.
1,673.

ring to a fact which came within his own observation. "There was a person, a very considerable drover from Carmarthenshire, who came to us to offer to conduct his business at our house; he had done business with Walter and Jones¹ to the amount of some hundreds of thousands; he came to me, and wanted to know whether we could not do business on the same plan. The first question I asked him was for security; he said, 'I have none to give!' 'What, none to give! have Messrs. Jones and Co. granted those large sums without any security?' 'Yes, without any security.' Those bankers had actually lent that man perhaps five or seven thousand pounds at one time, upon his own responsibility; they have the greatest confidence in those men, and I believe they seldom if ever deceive them. There is one bank the partners in which, originally drovers themselves, were in the habit of lending eight or ten thousand pounds to purchase cattle, and the bank sent an agent to receive the money at Barnet, where the cattle were sold. This was the general custom of doing business in that country."

V. INFLUENCE OF THE BRANCH BANK IN SOUTH WALES.

Influence of
branch in
South Wales.

Prior to the establishment of the branch bank at Swansea, in 1826, very few Bank of England notes were circulated in that district. The Brecon and Merthyr banks have an account with the branch, as have also several of the other banks in South Wales.

¹ A Welsh bank which failed in February 1832. It was obliged to suspend its payments in 1825. The partners were men of very considerable property, and their failure is understood to have been caused by their having advanced money on securities which were not immediately convertible in the money market.

The branch is a very great convenience to the banking interest in that part of the country, with reference to the supply of the precious metals and Bank of England notes, when they are required. There are two private banks at Swansea, which do business upon the plan of circulating only Bank of England paper. No doubt can be entertained, that in those towns where branches are established their notes must always secure a preference in *times of difficulty*; and that at such a period all other notes will be at a discount. Eventually the paper of private banks must be withdrawn in those towns where the branches are situated; for it will not be worth the while of the country banks there to continue issuing notes, which cannot compete with those of the Bank of England. Banks, however, which are stationed at some distance from the branches, will still be able to circulate their own paper; and it will be received decidedly with more confidence, on account of the existence of the branch in the district. At present the branches do not much compete with the country banks *generally*. The former, upon their present system, can never do the business that is done by the latter. They give no interest upon deposits, they advance no cash credits, nor do they discount promissory notes. They might, if they chose, conduct their business upon the principle of the country banks; but in so doing they would run very great risks, as their agents know little or nothing of the country.¹

Influence of
branch in
South Wales.

¹ Mr. Wilkins had peculiar means of knowledge on this subject, as he was for more than five years manager of the branch bank at Swansea. The evidence of Mr. Carr Glyn with respect to the utility of branch banks in general, so strongly coincides with what Mr. Wilkins says of the establishment at Swansea, that this seems a proper place for introducing it.

Influence of
branch in
South Wales.

In large cities, the business of country banks pretty much resembles that of a London bank. Although, by giving up their own circulation, their means of affording accommodation to trade will be reduced to a certain extent, yet that extent will not be very considerable as compared with their former usage, especially as the branches afford them every facility. Those banks will doubtless be more select as to the persons to whom they lend money, as their profits will be reduced by what they pay to the branches for discount. If a branch discount notes for one of these banks at three per cent, and that bank get five per cent from the individual, its profit is two per cent with the commission. A bank discounting with its own notes gains nearly the whole five per cent profit with the com-

" 3,678. Among country bankers that you correspond with, what do you find to be their general feeling with respect to the branch banks? — My opinion is founded upon the opinion of my correspondents, which is, that as they are at present conducted, the branch banks are rather useful than otherwise to them; there has been no material interference as yet with the business of the private bankers.

" 3,679. Do you think that opinion is well founded? — As far as I can judge, I should think they are a great convenience to a private banker, without being detrimental to his business.

" 3,680. In what way do you apprehend that a further extension of the system may become prejudicial to bankers? — At present they hold out some advantages to the merchants in the country towns which private banks do not; for instance, they issue their notes without charging commission; the profits of the private country banker, in many places, are mainly derived from commission; but still there is such an advantage to a merchant in a country town in keeping his account with the private banker, who knows his property and his transactions, and to whom he can apply for loans at the time when he may not have his means in hand to offer as security, with the certainty of obtaining assistance, that I do not think there is any chance of the branch banks interfering materially with them under their present mode of business.

" 3,681. Does not the existence of the branch bank relieve the country banker from communicating with you for the purpose of getting down either specie or any other assistance he may require in his business? — In a great degree it does; a great part of the specie required by country banks is transmitted through the branch banks, in the districts where they are established."

mission, less the stamps and expenses. It is true that the country banker constantly affords accommodation where he knows his security to be good, whereas the branch, from being tied down by certain forms of proceeding, would not be able to accommodate to the same extent. And if by any arrangement the Bank of England should eventually drive out the country bankers, there would be a large class of industry to which the accommodation of that establishment could never reach. When a private banker gets money from the Bank of England, it must be refunded; and he must take care that the persons to whom he lends it are punctual in their repayment. If he discount with his own notes, he can re-issue them; and though he must be prepared to pay these, they are not certain of being returned on a named day. But if he borrow from the branch for a certain period, he must refund at the expiration of that period, whether he be repaid or not by the persons to whom he has advanced money. If indeed the branch lent him notes upon security, to remain out as long as he pleased, then it would make very little difference whether he discounted with his own paper, or with that of the Bank of England.

Influence of
branch in
South Wales.

CHAPTER XIV.

SYSTEM OF PAPER CIRCULATION IN LANCASHIRE —
CONSEQUENCES OF THAT SYSTEM WITH REFERENCE
TO TRADE — METHOD OF PRIVATE BANKING AT MAN-
CHESTER — INFLUENCE OF THE BRANCH BANK IN
THAT DISTRICT.

I. SYSTEM OF PAPER CIRCULATION.

Paper circu-
lation.
Dyer, 4,190.

A STRONG feeling has always existed in Lancashire against the issue of notes by private bankers.¹ Some years ago (1824) they were desirous of issuing notes at Manchester; they had them printed and prepared for circulation. But the measure was so strongly objected to on the part of the public, that a town's meeting was held on the occasion, and resolutions were passed on the subject, which effectually prevented the plan from being carried into effect. This repugnance rests entirely upon the apprehension of danger from the failure of bankers, who might not be possessed of sufficient capital to meet their circulation.

¹ Mr. Burgess states (5,327) that a great mistake prevails respecting the circulation of bills and notes in Lancashire. Up to 1825, he says, there was a very large circulation of small notes in that county. He knew of one banker, carrying on business at Blackburn and Manchester, who had in that year a circulation of one-pound notes exceeding 140,000*l*. Throughout Lancashire a system prevailed, and still exists (5,328), of drawing small bills of exchange, in the nature of accommodation bills, which performed the functions of a circulating medium there; but, in consequence of the high rate of the stamps upon bills of exchange, from 5*l*. to 10*l*. (which were found extremely useful), the number of these small bills has been greatly diminished.

It would appear, however, that banks in Lancashire devised means for circulating paper of their own, without giving to it the form of a bank-note. They required every person who obtained an advance from them to make all his payments by his banker's drafts at three months' date, and to pay into his banker's all the cash and promiscuous bills he received. The bankers were thus furnished at all times with a large amount of cash and discountable bills, by which they were enabled to make their advances entirely in their own drafts. In this manner large sums were lent by them without the advance of one shilling of real capital.

Paper circulation.

Smith, 4,398.

II. CONSEQUENCES WITH REFERENCE TO TRADE.

Mr. Smith mentions some striking instances in which this system led to overtrading in 1824 and 1825. In the former year, a house possessing some eight or ten thousand pounds commenced building a large cotton-mill. At that time trade was good, and there were great facilities of obtaining discounts, and keeping afloat a large amount of accommodation bills, which encouraged them to proceed till they had spent from 40,000*l.* to 50,000*l.* in mill and machinery. Considerable surprise was generally expressed at the time, that a house which was thought to have so little could lay out so much; and it was variously conjectured, that they must either have been more wealthy than had been supposed, or that they had partners in the background. Things went on flourishingly with them till the panic came, when discounts were no longer to be obtained, and their accommodation paper ceased to float. Their failure disclosed the secret, that they had been enabled, solely

Consequences as to trade.

Smith, 4,398.

Consequences
as to trade.

by the facilities of borrowing, to expend so large a sum in building a mill. In another instance, a house possessing a large mill, having been encouraged by their bankers to borrow from them, were induced to increase it to double the size. The bankers, to secure a part of their advances, took a mortgage of the mill, but for a considerable part held no security whatever. So long as they were enabled, by the issue of their own drafts, to keep up a large circulation, and so long as discounts were plentiful, they appeared satisfied with the state of their customer's account. But the moment a scarcity of money began to be felt, peremptory notice was given to him to pay off the advances. He made every effort to comply with the requisition ; but difficulties increased, and, after repaying as long as he could, he failed. The bankers were fortunate enough, out of a loan of about 25,000*l.*, not to be creditors for more than one-half beyond the sum they had secured to them by mortgage. There was a third case, where a man of no capital had a loan of about 8,000*l.* from his bankers to build a mill. The public supposing him to possess property, he was enabled to obtain credit for the machinery and the materials for setting it to work. The panic, however, brought him to the ground ; and the creditors then discovered, to their mortification, that the bankers, who by their loan had been the means of deluding them, were the only creditors who were secured ; they had got a mortgage of the mill after it was built. The extent to which this system was carried in Lancashire is almost incredible. The consequences did not stop with the ruin of the parties engaged in it. The injury extended to all others in the same trade, who were possessed of

solid capital, but whose property was depreciated by this system. It is doubtful if even yet the trade of Lancashire has recovered from its effects. Consequences
as to trade.

If the increase in manufactures had been naturally caused by the investment of real capital, the production would have been gradual and profitable; but having been prematurely forced, it kept constantly a-head of the demand. The fall in prices and wages of labour induced, from time to time, an increased demand, but not sufficient to absorb the increased production. Although the supply has been checked by mills being shut up, or working only short time, or by having been stopped in consequence of quarrels with the workmen about the reduction of wages, it has nevertheless continued to exceed the demand; and, under this long course of unprofitable trade, the resources of the spinners and manufacturers have been gradually wasted away. "A friend," says Mr. Smith, "complaining of the state of trade, told me that he was working his mill at a loss; that, with all his management and economy, he was unable to make both ends meet; and asked my advice as to whether he should shut it up. I replied, that that must depend upon the amount of his loss by working it. It appeared, on examination, that if he shut up his mill, his expenses of rent, taxes, interest on capital, and expense of keeping the machinery in order, would amount to about 1,500*l.* per annum, but the loss by working it would be only 500*l.* per annum. I recommended, therefore, that he should continue to work it, on the ground that he would still be a gainer of 1000*l.* a-year by doing so. 'True,' said he; 'but you cannot fail to see that such gains must shortly bring men to

Consequences
as to trade.

ruin.' They have already brought many to ruin; and so recently as between November 1831 and February 1832, about forty spinners failed. The consumption of cotton manufactures is, no doubt, constantly on the increase; and it is not improbable, had not the overtrading of 1824 and 1825 occurred, that there might have been as large a production as there is at present. But it would have been brought about gradually, and by successive profitable investments of money, and those immense losses would have been avoided which have been caused by forcing the supply by means of artificial capital. Such have been the lamentable effects of the over-issues of bankers in Lancashire: they have entailed ruin on a large class of respectable traders and manufacturers, and much misery on a vast population. If banks had been established in that district on sound principles, issuing their own notes, much of this mischief would have been prevented; for it would have been utterly impossible to have lent to such an enormous extent without the possession of a large amount of real capital. Some banks, looking to their own safety, and kept from such excessive issues by the competition of rival banks, would have been unable, as well as unwilling, to encourage such reckless overtrading. There is no doubt, however, that some of the bankers in Manchester were possessed of large capital."¹

Smith, 4,399.

4,424. Although several banks failed in Lancashire in 1825
4,426. and 1826, yet the public have not suffered much in consequence. The injury to the community has chiefly

¹ It may be proper to observe, that Mr. Smith, who is a partner and director in the joint-stock bank at Manchester, is a strenuous advocate for establishments of that description.

arisen from the very large accommodation which the banks had all been in the habit of affording. They would have been less inclined to make those advances if they had issued their own cash notes payable on demand, instead of their drafts of three months' date, which they had been accustomed to circulate. It is true, that had they circulated cash-notes, they might also, if they had chosen, have issued their drafts; but in that case, if the aggregate amount of both had been very large, the public would have more clearly seen the state of their issues, alarm might have followed, and the cash-notes would have been returned for payment. The risk of immediate presentation would have deterred the banker from committing himself to a liability beyond his means.

Consequence
as to trade,
Smith,
4,431 to 4,441.

Mr. Burt coincides entirely in the evidence of Mr. Smith on this subject. "There were," he adds, "two operations: there was, in the first place, the great facility of procuring money, which led to advances being made by the bankers; and then the public were called upon to pay up this money sooner than they had expected, because it was understood that the bills would have been renewed from time to time. This the bankers were willing to do, as long as they had the facility of procuring money at a rate of interest that suited their purposes. But the moment the private bankers did not find it their interest to go on with the same system of discounting during the panic, that is, when there was a difficulty of finding cash-notes, they immediately said to all their customers, without exception, 'you must realise your property, and pay us.' The consequence

Burt, 4,564.

Consequences
as to trade.

was, that as at the time when they borrowed the money prices of commodities were high, and at the time when they repaid it prices were low, a great many failures took place, and a great amount of property was lost."

Burt, 4,565.

The witness was asked, "Are your observations confined to the district of Lancashire, or are they generally extended to the whole of England?"—to which he answered, "Being in the habit of reading the newspapers, and having correspondence in different parts of England and abroad, I knew a good deal of what was

4,566.

going on in other places." He was further asked, whether it was his opinion that the same system was carried on in other parts of England which he considered so injurious in Lancashire,—to which he replied, "I should suppose that it was done in other parts of England, but not to the same extent."

III. METHOD OF BANKING AT MANCHESTER.

Banking at
Manchester.
Loyd, 3,327.

Upon money deposited with the banking-houses at Manchester (with one of which Mr. Loyd, a London banker, is connected), they allow interest at the rate of two and a half per cent. The trading accounts are conducted upon the principle of charging and allowing interest, at the rate of three per cent, upon both sides of the account, charging a commission of a quarter per cent upon the amount of the payments made. They discount bills as insulated transactions, and their profits consist chiefly in their commission. It is in this way that they remunerate themselves for the difference between the interest which they pay on deposits, and that which they receive on discounts. Their circulation is

3,359.

Dyer, 4,157.

composed of Bank of England paper and coin, and a great number of payments are adjusted by means of bills of exchange. Banking at Manchester. Loyd, 3,327.

A very large amount of specie is required every week for the payment of wages at Manchester. The house with which Mr. Loyd is connected issues for that purpose, upon the average, about 25,000 sovereigns a-week. In order to effect these payments, the house requires a continual fresh supply weekly of nearly 10,000 sovereigns. It does not follow, however, from this circumstance, that the amount of the circulation in Manchester is constantly increasing at that rate from week to week. The working people lay out their wages in clothing and provisions; the money which thus passes into the hands of the dealers is transferred to the manufacturers who make the cloth, and to the districts whence the provisions are supplied. It next finds its way into the possession of the country bankers, by whom it is sent up to London, or returned to Manchester, as may be most convenient to themselves; so that, in point of fact, the circulation of the neighbourhood is pretty generally much the same. These payments were usually made in one-pound notes, before the latter were abolished, and the amount was then quite as large as it is at present. The suppression of those notes has made no alteration in the extent of accommodation, which the bankers at Manchester afford to the trade of that town. They experience no difficulty whatever in making any advances which may be reasonably demanded.

3,364.

3,365.

3,366.

3,370.

3,369.

3,367.

3,368.

3,373.

16.

IV. INFLUENCE OF THE BRANCH BANK.

Branch Bank.
Loyd, 3,333.

- Previous to the establishment of the branch bank at Manchester, the trading business was carried on there upon the terms of four per cent. Mr. Loyd is not quite clear, whether the reduction to three per cent, which has since taken place, was or was not concomitant with the establishment of the branch ; but he very much questions, whether the lowering of the rate itself was not the result of a general fall, which was then taking place in the interest of money throughout the country. Cash dealing has also, since the same period, been in a great measure substituted for credit dealing, and trade has, in consequence, been placed upon a sounder footing.
- 3,340. But this change he is also inclined to attribute to the increased facility of obtaining discounts in London, and of converting bills of exchange into money at a much lower cost than could be done formerly. To that facility the branch has indeed contributed, by having money transmitted from London to Manchester ; but not, he thinks, beyond that extent.
- 3,341.

- The branch has produced no effect upon the commercial dealings of the district. The accommodation granted by bankers generally was unduly extended in the years 1824 and 1825 ; and subsequently to 1825 and 1826 it was materially contracted. Mr. Loyd doubts, if the diminution of accommodation which took place at Manchester was the result of the establishment of the branch. Neither has that institution altered the system upon which private bankers had previously acted. It has not materially interfered with their business. It is true that several of their best cus-
- 3,339.
- 3,342.
- 3,343.

tomers now send their bills directly to a bill-broker in Branch Bank. London, who discounts them at a lower rate than they could be done at Manchester. He pays the money into the branch-bank office in town to the credit of the party, who finds it, in the course of post, at the Manchester branch, at his command. But although the branch certainly facilitates this process, Mr. Loyd refers Loyd, 3,343. it, as he did before, more to the effect of a reduction in the general rate of interest, and the many increased opportunities of obtaining discounts in London. The same process takes place in many instances where branch banks do not exist. 3,344.

The branch affords great accommodation to the 3,347. private banker at Manchester by conveying thither from London the cash he may require, instead of leaving to him the trouble and risk of doing it, both of which were very considerable. The supply thus sent down weekly is to a very large extent; yet the Bank of England make no charge for it, "and I am puzzled to know," 3,350. says Mr. Loyd, "how they pay the expenses of the 3,354. operation."

CHAPTER XV.

EFFECT OF THE BANK OF ENGLAND CIRCULATION AT BIRMINGHAM UPON THE BANKING TRADE THERE—GENERAL STATE OF TRADE IN THAT DISTRICT—MR. ATTWOOD'S OPINION AS TO THE CAUSE OF ITS DEPRESSION—HIS VIEWS WITH REFERENCE TO THE CURRENCY OF THE COUNTRY.

I. EFFECT OF BANK OF ENGLAND CIRCULATION AT BIRMINGHAM.

Effect of
Bank of Eng-
and circula-
on at Bir-
mingham.
Attwood,
5,568.

Mr. ATTWOOD, who is a banker at Birmingham, is of opinion, that no evil effect whatever is felt by the banking trade of that neighbourhood from the existence of the exclusive privileges of the Bank of England. Unfortunate consequences have certainly sometimes arisen from fluctuation in the notes of that establishment; but he does not consider those fluctuations as in any way attributable to its managers. The branches have been a material protection to the country, by enabling it to slide gradually into a state of depression and extreme distress, which must have occurred suddenly, and much more terribly, had it not been for their assistance. They have not enabled the country to revert to the ancient standard (a standard of which Mr. Attwood does not approve); the country has not yet traversed one-tenth part of the way towards that object; but they have undoubtedly prevented a great

5,570.

5,574.

5,575.

explosion of the monetary system. They have administered large masses of circulating money, both notes and bullion, through channels directly acting upon industry and credit. At Birmingham, but for the discounts of the branch, the whole of that neighbourhood,—all the manufacturers, and all the merchants, generally speaking,—must have been exposed to much greater difficulties than they have, in fact, endured. It has, certainly, engrossed some of the best business of the place; it discounts all the best bills, and leaves the bad and doubtful ones as legacies of ruin to others; but it is not upon the whole injurious, as by its facilities of discounts it has kept up the confidence of the private bankers. The latter would indeed have been very ready to discount good bills under any circumstances; but without the assistance of the branch they could not have had the power to do so, in consequence of the severe distress that would have otherwise existed. Many of the inferior bills which they now take they would have rejected, if they could have had the good bills brought to them, and that would have added to the misery that already prevails.

Effect of
Bank of Eng-
land circula-
tion at Bir-
mingham.
Attwood,
5,577.
5,779 to 5,584.

5,595.

The bankers of Birmingham have not altered their rate of discount¹ since the establishment of the branch in that town. It was five per cent and a quarter commission upon good bills previously to 1825, and at that rate it still continues. The branch, however, discounts at four, and that draws all the best bills. The rate of discount has therefore been reduced at Birmingham, only so far as the bills taken by the branch are con-

5,586 to 5,598.

¹ "I never heard a merchant complain of the rate of discount, because banking accommodation is too valuable and too important to make it of any consequence whatever, whether he pays five or ten per cent."—Attwood, 5,585.

Effect of
Bank of Eng-
land circula-
tion at Bir-
mingham.

cerned. It would be desirable that more branch banks should be established in the country, provided their dealings were confined to the country banker. If that were the case, a country banker would never again stop payment in England. An arrangement of this kind would put an end to the competition, which exists between the branches and the country banks. It would, indeed, be founded on the principle, that a distinction ought to be drawn between bankers and merchants in the country, which is not made between bankers and merchants in London; the Bank of England in London discounting on the same terms for both classes. But in London one set of habits has grown up, and in the country another; and a system which is healthy after the practice of a century in the capital, may be exceedingly unhealthy if applied to the great embarrassments, that arise in the progress of a hundred years throughout the country. The Bank of England do not discount with country bankers at a lower rate than with merchants, unless where bankers do not issue their own notes, and then only to a limited amount; the Bank taking from them their bills, and having the power to turn round upon them, at twenty-four hours' notice, and to cause their ruin. It does not appear that the Bank have ever exercised the power which they possess in that respect, but its bare existence is "sufficiently terrible," and a much greater evil than the one per cent saved is a benefit.

II. GENERAL STATE OF TRADE IN THAT DISTRICT.

General state
trade.
twood,
551 to 5,682.

There is no trade at present carried on at Birmingham in which a depreciation has not taken place, owing

to the general contraction of the currency. It is, however, a curious fact, that the very distress of trade increases the production of some particular trades, in two ways. In the first place, workmen work harder in consequence of the fall of their wages ; and, secondly, the capitalists, in their struggle to avoid ruin, augment their manufactures. In the iron trade, for example, if they have two furnaces they will build another, because the loss upon the two furnaces is equal to 10s. per ton ; but if they add a third, the loss upon the whole will be reduced to 5s. per ton. Nothing is more common than for manufacturers to increase their establishments at the very time they are upon the road to ruin.

General state
of trade.

Distress is, like the atmosphere, universal amongst all the working and trading classes in England. Trade of every description has been carried on at a positive loss within the last seven years, with the exception only of a few instances, in which speculators have now and then made a profit. The labourers are paid at half the rate of wages which they received formerly ; though they work sixteen hours a-day, they do not get so great a reward in exchange as when they worked twelve hours. Increase of production cannot tend to the prosperity of the country, unless prices be high and money be plentiful. The production of the country is, in several instances, greater than it was some time ago, by reason of the inordinate toils of certain classes of men ; in other instances it is less, in consequence of other classes being totally or partially unemployed. The aggregate productions of the country are less than they have been during the last seven years. The capital engaged in productive power is annihilated, considered as money ;

General state
of trade.

it consists of brick and mortar, and machinery, which are almost worthless. For instance, a cotton-mill which seven years since cost 35,000*l.*, was recently sold by auction for 5,000*l.* Another case occurred in Birmingham, in which tools and implements of a brass foundry that cost, seven years ago, 1,560*l.*, were lately sold for 125*l.* Within that period, no fresh capital has been invested in manufactures, except in the instances already mentioned, of men trying by desperate struggles to escape from ruin. No capital has been invested in manufactories during that interval with a view to productive returns.

In some cases, an increase has taken place in the cotton trade. Immense mills have been sold or let for a fifth of their value; and out of that destruction a new tradesman, coming in unshackled, sometimes continues to exist, but not to make a profit. "I see," says Mr. Attwood, "every one shrinking from manufactures; every one that can drain out one-tenth of his capital, gradually does it; but I have seen no determination of capital into any trade within the last seven years. On the contrary, I have made it a point frequently to ask the question, and I am sure I have asked it of a thousand well-informed tradesmen, whether they knew of any branch of industry existing in England in which a prudent man of industrious habits, with 10,000*l.* in his pocket, and of competent knowledge, would be justified in embarking his capital. I have never met with more than a single instance in which that question has been answered in the affirmative, and that by a Manchester gentleman. But when I came to cross-examine him, he broke down."

The fixed capital of the country is absolutely destroyed, General state of trade. considered with reference to its convertibility into money. Capital which was formerly worth 100,000*l.* has fallen in some cases down to 5,000*l.* At that reduced rate it has passed into the hands of a new man, and he carries on the establishment until failure compels him to sell it for 2,000*l.*; and so there seems to be no limit to the progress of depression. It commenced in 1816, and was checked for a while in 1817 and 1818: it was renewed in 1819, and went on till 1822; a prosperous change then took place, and continued until the autumn of 1825, when the process of ruin recommenced, which still pursues its fatal course.

The wealth of Birmingham at present is not the half of what it was prior to 1816. The consumption of articles of luxury has much decreased there, especially within the last one or two years. It may be true, that within the last twelve years, the number of two-wheeled carriages may have been doubled in that neighbourhood. But "fashion and extravagance are eccentric things," observes Mr. Attwood; "the roads have been wonderfully improved by Macadamisation; luxury and education increase beyond any thing, and that leads to additional expense. I am sorry to say, that at Birmingham, for the last fifteen years, every man seems to me to have increased his expenses, at a time when I positively know his fortune has been diminishing. There is no wealth, no comfort there; and there is no safety amongst manufacturers or merchants; but they will perhaps not acknowledge this." As to the improvements in the roads, they have grown out of the poverty of the labourers, the parishes having been obliged to employ

General state
of trade.

them in breaking stones; and as to those persons who have participated in the increased luxuries of Birmingham, vast numbers of them have been totally ruined.

Attwood,
5,683 to 5,695.

The increased consumption which has taken place at Birmingham during the last sixteen years, while the poverty of the district has been growing greater, has been met in some degree by the accumulations of the industry of the war. There has been also a vast influx of capital, from all parts of the country, into the large towns, Birmingham among the rest, not, however, for the purpose of being invested in manufactures, but in the erection of houses for the residence of people who come from distant villages, country gentlemen, and small capitalists. It is in the construction of those dwellings that the population of the place have been mainly employed during the last ten years. Half of those new houses, however, "have been built," says Mr. Attwood, "to my knowledge, by insolvent men, who fail a year or two after they build them." The capital which they borrowed for that purpose from their creditors came undoubtedly from Birmingham itself; but it arose from no profits of the regular trade of the place, save those which were realised during the war.

III. MR. ATTWOOD'S OPINION AS TO THE CAUSE OF ITS DEPRESSION.

Cause of the
depression of
trade.

The evil under which the country now labours is, that the value of money is too high. When a fall happens to take place in that value, a reward is obtained for production which calls labour into employment. If the powers of industry be then put upon their full stretch, it is probable that a greater mass of commodities will

be produced than can be contemporaneously consumed ; and the consequence will be a depression of prices to a certain extent. But that depression will not be equal on the one to the excess on the other of the commodities so produced ; for every process of production facilitates and increases consumption. If a million extra be invested in the iron trade, for instance, in one year, a larger quantity will be produced than may be wanted at that time. But, meanwhile, one million more is distributed among the labourers, which they spend in provisions and clothing, and thus transfer it to the hands of agriculturists and manufacturers. The action of the extra capital becomes therefore general upon all trades. More iron is consumed, more beef, more beer, more clothing of every kind, and the whole machinery of society works harmoniously.

Cause of the depression of trade.

As to prices, nothing can raise them but the action of money, either real money or credit money. Put money into the pockets of the people, and then, and not until then, can consumption keep pace with production. The more the currency is depreciated, the greater the power of consumption becomes, until every labourer in the kingdom is fully employed. Capital, or, in other words, property of any description which can be employed in production, forms the ordinary fund for the employment of labour. But the circulating medium is the organ which converts that capital to the uses of the country. Imagine the division of labour in England to be represented by a draft-board, which contains a thousand masses of commodities, a mass of iron, a mass of wheat, a mass of clothing, and so on. The possessor of the iron cannot feed himself with iron ; the possessor

Attwood,
5,697 to 5,704.

Cause of the
depression of
trade.

of the wheat cannot clothe himself with bread; the manufacturer of the cloth cannot pay his artisans in cloth. These several masses of wealth derive their convertibility to men's uses solely from the action of the circulating medium. If that medium be equal to the duty of covering a range of the prices of those masses equivalent to the taxation, and the wages, and monetary burdens which the habits of society impose upon their production, and also sufficient to leave a moderate profit to the producer above those charges, then the interchange of those commodities for each other, and for labour, is ample and satisfactory. But if the circulating medium become contracted by any means, so as to break down the prices of those commodities within the range where profit is not to be found, then the machinery of interchange becomes disordered; those masses cease to be convertible to men's uses, and they exhibit the terrible phenomenon which we now witness, of a country in the midst of abundance and poverty at the same time.

It may be asked, "How an augmentation of the circulating medium, which necessarily carries with it a depreciation of the value of money, can add to the power either of production or consumption?" If, for instance, the currency be in such a state that one pair of shoes exchanges for 1s., and one hat for 1s., and if such a depreciation of the currency take place as that one pair of shoes shall be worth 2s., and one hat shall be worth 2s., how is the producer of the hat to be able to consume more shoes than before, or *vice versa*? Mr. Attwood answers: "In this way,—the producer of the hat selling the article for 2s. instead of 1s. finds the

Attwood,
705 to 5,708.

pressure of his *fixed charges* thereby broken down and reduced. He finds also a great profit in his trade. He puts his men into full employment, and puts his monetary capital and his credit into full operation. As fast as he produces a hat which he sells for 2s., he or his workmen expend those 2s. either in the purchase of shoes, or some other commodities; and this action being general upon all the productions of industry, the whole industry of the country becomes liberated from its thralldom; every trade gets a reasonable profit, and every labourer is brought into beneficial employment. It is true, that if he could only sell his hat for the shoes, the mere elevation of price would probably not be a great benefit, because he would have to pay in his purchase as much money as he receives in his sales. Still, his industry would be liberated, and he would have a profit, because the *fixed charges* which law and habit impose upon his trade being thus reduced, would leave a great proportion of the products of the country in his own hands. For instance, I presume, that if he were obliged to sell the hat for 1s. instead of 2s. it would be a ruinous trade, supposing the fixed charges to be 10d. upon the hat; but if the price rise to 2s. and the fixed charges remain at 10d. they leave him a profit, the consequence of which is, that he immediately produces more hats, and has a beneficial trade. The shoemaker feels the same action upon his trade, and the thing resolves itself into a greater proportion of industry being advantageously employed."

Cause of the depression of trade.

IV. VIEWS WITH REFERENCE TO THE CURRENCY OF THE COUNTRY.

Views with
reference to
the currency.

Attwood,
5,757 to 5,769.

It would be a matter of grave consideration how far the depreciation of the currency should be permitted to go. It should, however, be assumed as a general principle, that so long as any number of industrious honest workmen in the kingdom are out of employment, supposing such deficiency of employment to be not local but general, it is the duty and the interest of Government to continue the depreciation of the currency until full employment and general prosperity shall have been obtained. It is difficult to obtain an absolute test of full employment; the year 1825 might perhaps be taken as an example of it, when no honest man was without occupation. If the population were doubled, they would all be employed beneficially by establishing either a just metallic standard of value, or artificial standards of value, which, in Mr. Attwood's opinion, are better suited to the present artificial state of society.¹ The Bank of England note, or a mass of exchequer bills, or a portion of the national debt, might be con-

¹ This reasoning, though apparently peculiar, coincides with the doctrine laid down by Mr. Cock in his able pamphlet: "There seems," he says, "to be in all countries a sort of indescribable value set upon the precious metals, far beyond what would appear to be warranted by their intrinsic merits. It is true that their portability, incorruptibility, and being at the same time less liable to great fluctuations in price, make them desirable articles to keep, when wealth is required to be hoarded. But, taking all these considerations into the estimate, and fixing prices on them accordingly, they are of no more value than a given quantity of sugar and coffee, answering to the same nominal value, and estimated also by all the circumstances of corruptibility, waste, and other disadvantages by which *they* are affected."—P. 12. "As long as paper currency is founded on actual property, whether gold, silver, coffee, sugar, or other goods, it does not appear to me to be possible that too much can be circulated."—P. 32.

verted into a legal tender, but to a limited extent, so as to have an abundance of circulation, without any excess. Views with reference to the currency.

In the present state of things, the reward of labour being destroyed, the labourers, who can each produce four times as much of the comforts of life as they and their families could possibly consume, are starving, while superabundance reigns around them. They find no employment, because the organ of industry, which is money, does not exist in sufficient quantities to give the productive classes a reward for their exertions. The peasant idly wandering about looks over the hedge of the half-cultivated farm, where the land is suffering for want of his labour; but at the same time the farmer has neither the profit nor the money to enable him to bring the hand and the soil into contact.

Although retail prices have not been so much reduced as the wholesale, yet retail tradesmen were never so distressed as they are at present. The blacksmith, who buys his iron at one-third of the price which he paid for it in 1825, charges now just as much as he did then; yet his trade, and those of all retail dealers, are much less profitable, they have so many bad debts, so much competition, and such diminished sales. To these classes a depreciation of the currency would be highly beneficial; it would enable the debtor to discharge debts, which he cannot now pay without destruction. Attwood, 5,770 to 5,774.

With reference to the effect upon industry of the reduction of taxes, Mr. Attwood, though a great advocate for lessening the burdens of the people, is of opinion that they have gained very little from the fiscal modifications which have taken place within the last 5,709 to 5,753.

Views with
reference to
the currency.

fifteen years. Taxation is more or less oppressive, in proportion to the quantity of money in circulation. A sudden reduction of it to a large amount would be injurious to the industrious classes for a while, because, being employed in absolute consumption, and therefore in the maintenance of labour in one shape or other, an abrupt diminution of it would throw many of them for a season out of employment. The operation, however, would only be temporary ; and if, during the course of it, the classes whom it might affect could be maintained, at the end of a few years the general industry of the country would be much benefited by the removal of taxes.

Attwood,
5,776 to 5,781.

In order to obtain the augmented currency to which Mr. Attwood alludes, he recommends that silver should be the only standard, and that gold should be allowed to find its own agio ; that the Bank of England should increase its issues very considerably, including a large supply of one-pound notes, and that the paper of the Bank should be made a legal tender from all persons but the Bank itself. It is not improbable that one of the consequences of that measure would eventually be a suspension of cash payments. There is, however, danger of that result even now. But if it should happen that a restriction became necessary, the legislature might so limit the Bank as to take the evil away from that state of things. They might, for instance, appoint a commission over the Bank, with power to direct that the currency should not exceed a given amount. There is no reason why the currency ought always to be exactly the same. It should possess an expansive character, but rarely a contractive one. The productive

employment of industry should be the guide. As to the country-bank notes, they ought, by all means, to be preserved. They are the most important instruments of circulation that exist. They act directly upon the channels of industry, and are all employed in the *bond fide* feeding and clothing of the population, whom the Bank of England paper does not so directly reach.

Views with
reference to
the currency.

CHAPTER XVI.

CIRCULATION OF THE COUNTRY BANKS—MR. BURGESS'S
OPINION AS TO THEIR UTILITY—HIS ANSWER TO THE
CHARGE OF THEIR HAVING ISSUED TO EXCESS IN
1825—ORDINARY AMOUNT OF THEIR "REST"—
THEIR VIEWS WITH REFERENCE TO ONE-POUND
NOTES.

I. CIRCULATION OF THE COUNTRY BANKS.

Circulation. Mr. Burgess laid before the committee a paper, exhibiting the circulation of one hundred and twenty-two country banks from 1818 to 1825, both inclusively. The issues of each individual are set down in proportion to a cabalistic, or imaginary, number; but although it would seem to furnish the best evidence that has yet been collected on the subject, it leads to no general conclusion. It presents, at best, only the circulation of one-third of the country banking-houses, which actually do business as such; and its authenticity depends entirely upon the honour of the parties. One or two facts, however, it proves pretty clearly, viz. that the circulation of these banks was at its lowest points in 1822 and 1823, that it improved in 1824, and that in 1825 it increased, though not to more than sixteen per cent above what it was in 1818. It is difficult to get returns that can be relied upon of the circulation subsequently to 1825, because the small notes would inter-

Minutes of evidence, p. 414.

Burgess, 5, 160.

Minutes, p. 416.

Burgess, 5, 166.

fere with its accuracy. Some bankers began to take them in in 1827, and some have not taken them all in yet. There is a bank in Cornwall¹ that has one-pound notes still in circulation ; the miners identify their prosperity with those notes, and will not take them to the bank for payment. There is another bank in North Wales² which is similarly situated.

Circulation.

II. UTILITY OF COUNTRY BANKS.

Mr. Burgess is of opinion, that the preservation of the country-bank circulation is essential to the public welfare. Its withdrawal would, he thinks, throw extraordinary impediments in the way of the internal commerce of the country, because the bankers are brokers of capital, and by depriving them of the convenience and profit derived from their issues of notes, many of them would cease to be the agents for borrowing and lending money. Many of the banks would be shut up for want of profitable business ; and consequently their customers, both borrowers and lenders, would be excluded from the advantages which they now possess. To the manufacturing and agricultural interests, extensive accommodation, at certain periods of the year, founded on personal character even without marketable security, is a very great advantage, especially in a time of distress. Remarkable instances have taken place, in which persons have been maintained in their position, and their industrious pursuits have been preserved to them, by loans of private bankers, made upon personal character. Had such accommodation been refused to the parties, on the fixed immutable principles of a

Utility.

Burgess,
5,180.

5,202.

5,205.

¹ Grills and Co. of Helston.

² Jones, of Llandovery.

- Utility. public body acting by directors, the effect would probably have been immediate discredit, and the ultimate breaking up of the party applying for the loan. Nor has any loss been sustained eventually by the bankers thus affording the accommodation ; but, on the contrary, they gained a profit on the conclusion of the transaction. Cases of this description have occurred, in which, if the party obtaining the accommodation had failed for want of it, his fall would have created great confusion in an extensive neighbourhood. It is understood that loans on personal character are sometimes granted by banks in London, which are not banks of issue ; but such instances are supposed to be exceptions to their general rules of business ; that is to say, they do not usually advance money upon the security of the individual himself without other security, nor for an undefined period, as the country bankers do.
- 5,206.
- Burgess, 5,203. 5,204.
- 5,209. Nor is this opportunity of obtaining accommodation advantageous to the country, merely in a season of distress. It is also one of the modes by which general business is much facilitated. In many instances, rents could not be collected if that accommodation had been withheld. It enables the farmer, during the time of his outlay, to await the period of the returns by which he makes his profit. It gives to the manufacturer the power of procuring the raw material, and of turning it into the manufactured article, before his own capital need be employed, and thus to enable him to get a return for his capital, and repay the advances so made.
- 5,211.
- 5,212.
- 5,214. These are advantages which, as Mr. Burgess conceives, can never be so efficiently supplied by any other system of banking. If from any cause all those advantages
- 5,215.

were suddenly arrested, and the accommodation throughout all this chain, from the labourer to the landlord receiving rent, and from the mechanic to the master-manufacturer, were suspended, the consequence would be a convulsion in the whole frame of society such as was never before experienced.

Utility.

III. ANSWER TO THE CHARGE OF EXCESSIVE ISSUE.

In answer to the charge of excessive issues having been made by country bankers in the year 1825, Mr. Burgess insists that there was no very remarkable, and certainly no imprudent issues on their part in that year. He mentions the case of Nottingham, where no instance of bank failure had ever occurred, and yet it so happened that the bankers there, men eminently distinguished for prudence and good management, were, in the period from 1818 to 1825, among the highest on the scale of issue—a circumstance which was owing entirely to a great increase in the manufacture and in the population of Nottingham during that period. From the stamp returns, it would appear that a great increase took place in the year 1825 in the issues of the country banks. From the table laid before the committee by Mr. Burgess, it appears, however, that the actual increase of circulation in the latter year was very inconsiderable. These apparent discrepancies he has endeavoured to reconcile by the following statement. “After the measure of 1819 (for the resumption of cash payments) came into operation, the general currency of the country became greatly restricted, and a great many notes of the country bankers were consequently drawn in. The bankers did not want any new stamps while

Answer to charge of excessive issue.

Burgess,
5,480.

5,484.

Answer to
charge of ex-
cessive issue.

their old notes were out of circulation and ready for use, and they did not, consequently, get any large amount of new stamps for some years subsequent to the passing of the act of 1819. Further than that, there was an impression upon the minds of all men of sense and experience, that the measure of 1819 was an impracticable measure, and could not be persisted in, and consequently the bankers were waiting for the changes which they were confident would take place. A change did take place in 1822. Lord Castlereagh brought forward a measure to extend the issue of small notes from 1825 to 1833; naturally thinking and alleging, as a ground for the proceeding, that the subject of small notes would be appropriately brought under consideration when the subject of the renewal of the Bank charter was discussed in Parliament. After this proceeding on the part of the legislature, many of the bankers thought that the old system would be restored; and I apprehend that that might induce them to lay in a stock of notes, to be ready for the coming demand which they anticipated. It so happened, also, that just about that period there were very great changes in the engraving of bank-notes themselves. Mr. Perkins, a gentleman from America, introduced some changes in the engraving of bank-notes, which, it was supposed, would have the effect of preventing forgeries, or rendering forgeries more difficult. Now I know that a great many banks ceased to issue their old notes at that period; they were obliged, consequently, to get new stamps for the newly-engraved notes. I think that these circumstances go far to account for the extraordinary increase in the issues of stamps, and the very small comparative increase

of circulation. I know, in addition to this, that a great many stamps so taken were not used. One banker had four thousand stamps for each denomination, all filled up and signed in the year 1823, and not one of them was issued. He never had an opportunity of getting them into circulation between 1823 and 1829, when the issue of small notes was prohibited. I know another banker who had 14,000 one-pound notes, which were obtained in the years 1823 and 1824, and they were in a perfectly usable state, many of them not issued at all in the year 1829, when he was obliged to suppress them."

Answer to
charge of ex-
cessive issue.

Burgess,
5,485.

During the period in question (1825) the increase on the country-bank circulation did not exceed sixteen per cent on the average. It so happened, however, that in many parts, there was an increase exceeding thirty per cent; but in most of the agricultural districts there was a great diminution. In the county of Kent, for instance, there were but two country bankers who at that time augmented their issues.

5,489.

IV. ORDINARY AMOUNT OF "REST."

The guard or "rest" kept by country bankers in general is exceedingly variable; the most usual proportion seems to be one-fourth of the amount of their issues, which is retained in specie and Bank of England paper. There is a bank in Newcastle which acts upon a sort of principle deduced from practice. The firm have looked through a course of forty years, in order to ascertain the greatest demands that have ever been made upon them in five days, the period of time that would elapse in obtaining a supply of gold from London; and they always keep the amount of those demands in their

Amount of
"rest."
Burgess,
5,557.

- Amount of
"rest."
Burgess,
5,559.
- coffers. That principle does not, however, apply to their other liabilities ; because almost all deposits, though paid as matter of courtesy, on request, are not demandable at the time of presenting the deposit note.
- 5,559. It would not be easy to ascertain how much of their "rest" the country bankers in general hold in specie, and how much in notes of the Bank of England, as many of them, from a feeling that the Bank has invaded their rights, keep no part of their reserve in its paper. In addition to the proportion of the reserve retained in
- 5,560. specie, most of the banks in the manufacturing and mining districts constantly collect gold and silver for the weekly payment of wages, to the extent of at least seven times as much as the amount of specie which
- 5,561. constitutes part of their "rest;" so that the quantity of coin held by them is very large indeed as compared with their own circulation.

V. ONE-POUND NOTES.

- One-pound
notes.
Burgess,
5,565.
- With respect to the small-note currency, Mr. Burgess confidently states, that nine out of ten, if not a still greater proportion, of all the country bankers in England and Wales are decidedly opposed to the issue
- 5,566. of paper under five pounds. Their principal reason is, that they have found from experience, that all the great demands upon banks have commenced through that portion of the circulation, and have indeed been created by the spreading of an alarm which the holders of it were the first to exhibit.

CHAPTER XVII.

JOINT-STOCK BANKS ESTABLISHED IN THE COUNTRY —
 MR. STUCKEY'S JOINT-STOCK BANK AND ITS BRANCHES
 IN THE COUNTIES OF GLOUCESTER AND SOMERSET —
 MANAGEMENT OF THEIR CIRCULATION — IMPORTANCE
 TO COUNTRY BANKS OF THE POWER TO ISSUE THEIR
 OWN NOTES — INFLUENCE OF THE BRANCHES OF THE
 BANK OF ENGLAND IN THAT DISTRICT — JOINT-STOCK
 BANK AT MANCHESTER.

I. JOINT-STOCK BANKS ESTABLISHED IN THE
 COUNTRY.

ACCORDING to a statement which was laid before the committee by Mr. Dyer, it appears that down to the month of July 1832, twenty-three joint-stock banking companies had been established in different parts of England under the act. They are as follow :

Joint-stock
banks.
Dyer, 4,256

7 Geo. 4. c. 2.

“ Huddersfield Banking Company, established in 1827 ; capital, 500,000*l.*, and twenty per cent called up, viz. 100,000*l.* Has a branch at Wakefield.

“ Bradford Banking Company, established in 1827 ; capital, 500,000*l.* ; not known how much called up. Has no branches.

“ Lancaster Banking Company, established in 1827, upon a limited scale ; its cash capital about 20,000*l.* Has three branches.

“ Norfolk and Norwich Banking Company, established in 1827. Has nine branches. Capital not known.

“ Bank of Manchester, established in 1829 ; capital, 2,000,000*l.* ; fifteen per cent called up, viz. 300,000*l.* Has two branches, viz. at Stockport and Bolton.

"Halifax Joint-Stock Company, established in 1829, upon a small scale, its cash capital being little more than 15,000*l*.

"Leicester Banking Company, established in 1829, upon a limited scale; capital not known. Has one branch.

"Birmingham Banking Company, established in 1829; its cash capital is 50,000*l*. Has one branch.

"Cumberland Union Banking Company, established in 1829, upon a limited scale; its cash capital is little more than 20,000*l*. It has seven branches.

"Stuckey's Banking Company. This was a private bank at Bristol, and took the name of a joint-stock bank after adding a few partners. The partners are about ten in number. They have eleven branches, besides a house in London.

"Manchester and Liverpool District Bank, opened in 1829 by issuing notes, which state upon the face of them, 'Capital 5,000,000*l*. in fifty thousand shares of 100*l*. each.' Was nearly eighteen months without a board of directors. No account of their proceedings has ever been published, and their present paid up capital is therefore unknown. Nine branches open.

"York City and County Banking Company, established in 1830, in five thousand shares of 100*l*. each, upon which 5*l*. per share have been called up, making a cash capital of 25,000*l*. Has one branch.

"Bank of Liverpool, established in 1830: capital, 2,500,000*l*., in twenty-five thousand shares of 100*l*. each, upon which 10*l*. per share have been called up, making a cash capital of 250,000*l*., and a further call of 125,000*l*.—375,000*l*.

"Whitehaven Banking Company; on a small scale, and no particulars known.

"Sheffield Banking Company, established in 1831, in fifteen hundred shares of 200*l*. each, upon which 40*l*. per share have been called up, making a cash capital of 60,000*l*.

"Barnsley Banking Company, established in 1832.

"Darlington Banking Company, Darlington District Bank, Gloucester Banking Company, Knaresborough Banking Company, Wolverhampton and Staffordshire Banking Company, Plymouth and Devonport Banking Company, Stamford and Spalding Banking Company,—all recently established,—no particulars known respecting them."

II. MR. STUCKEY'S JOINT-STOCK BANK.

Mr. Stuckey states that his joint-stock bank, established under the act of 1826, has eleven branches, which are connected principally with the agricultural, but in some measure with the commercial districts. They are confined to Bristol and the county of Somerset.¹ The chief office of the bank is at Langport, where Mr. Stuckey resides. There also is the residence of the accountant-general, and all the accounts are brought thither every month by means of registers, so that he can always see the state of every concern. As chairman, he exercises a general superintendence, having active cashiers under him, who manage that department; and he has also a resident partner in most of the establishments, a person conversant with the local neighbourhood. Each partner is a general partner in the whole of the transactions; he must be so under the deed of the company. There are in all twelve individuals in the firm, some of whom take charge of two places, where they are near each other. They are all liable by law to the whole extent of their fortune. Mr. Stuckey was a partner in four or five banks² before the act allowed him to blend them together, and he found that he was often very inconveniently situated by one of them, as it were, pulling against the other. He has found the power of uniting them to be productive of the utmost convenience in all branches of his business. He can now have any given number of partners; and

Mr. Stuckey's
joint-stock
bank.

Stuckey,
927 to 1,005.

¹ These establishments are situated at Langport, Bristol, Wells, Shepton-Mallet, Taunton, Bridgewater, Chard, Ilminster, Crewkerne, Wellington, Castle Cary, Martock, and Bruton.

² His private bank at Langport was established upwards of sixty years ago.

Mr. Stuckey's
joint-stock
bank.

by combining local knowledge with this advantage, he has since extended his business, and given great facilities in many ways, which he could not have afforded before.

These different establishments take deposits, upon which they give interest. If they have a deposit above 1,000*l.*, they are entitled to receive sixty days' notice on its being withdrawn; but if it be under that sum, they require thirty days' notice. This is seen on the face of the interest note. But in all cases they do not actually take the thirty days. As a matter of convenience to parties, they sometimes pay the money down, deducting the interest; but that is optional on their part. They pay interest on deposits to the amount of 20*l.*; and they have money of that amount, which has been in Mr. Stuckey's bank (private and joint-stock) for more than twenty years, upon the principle of the Savings' Bank. On small sums they give three per cent; on large sums not so much. They do not always pay the same rate: they sometimes allow two, and sometimes two and a half per cent; it depends upon the time for which the deposit is left, and other circumstances. Their deposit notes are always stamped, otherwise they would not be legal; the interest which they bear is mentioned on the face of the instrument.

If a deposit be not conditioned to remain in their hands for a definite time, they give no interest upon it; neither do they pay interest upon a current account. That is not the custom in the county of Somerset: a person having an account current may give a check for his balance any day; and of course, in that case, the banker cannot be expected to give interest. It may

have happened that a man has had 500*l.* upon his account, and that he has not demanded any part of it for a twelvemonth ; such a man may have said, “ You must allow me some interest upon that,” and the bank may have done so ; but it is not a general rule.

Mr. Stuckey's
joint-stock
bank.

The deposits bearing interest, and those on a running account, are usually equal to the amount of their circulation ; those on account being about two-thirds of the whole. The money which they take in at interest at two and a half and three per cent, they lend to landlords and farmers at four or five. The accommodation to the farmers, from May to October, takes place to the extent of perhaps 40,000*l.* or 50,000*l.* In those months most farmers are out of cash. They have sold all their stock, they have their harvest to get in, and therefore until October they lean on their banker. For these advances they give their personal security, with perhaps a deposit of deeds, or a joint note where it can be had. Where the bank know a man to be substantial, they sometimes make him advances on account, without any security.

All the branches of this bank issue notes, which are payable on demand not only in the country, but also in London. Upon the face of the notes they are not payable at all the branches, but, in practice, they are paid at every bank. It is doubtful whether, in point of law, they can make their notes payable in London ; but the Bank of England and the Government said they had no objection to it, and it was accordingly done. It is a great convenience to the public that their notes should be made payable in London, and it can produce no disadvantage to the Bank of England. It is not,

Mr. Stuckey's
joint-stock
bank.

however, the custom in many parts of England to make the cash-notes payable in London, from which considerable difficulty sometimes arises. According to the existing state of the law, Mr. Stuckey cannot issue notes in London, nor within sixty-five miles of it; nor (having more than six partners) can he draw upon London for any sum under 50*l.*, which is a very material impediment in the management of his business.

The branches of Mr. Stuckey's bank remit to London the greater portion¹ of the taxes of the county of Somerset, for the collection of which, as well as for the payment of rents,² they afford great facilities. They allow no interest to the collector upon any public money that comes into their hands; they pay it too quickly to do that. The same system of advance which prevails with respect to farmers, exists also as to traders and dealers of every description in the neighbourhood, provided the security be satisfactory. Without such accommodation, the trade of the district could not have been carried on.

III. MANAGEMENT OF CIRCULATION.

Circulation.
Stuckey,
1,000*l.*

The circulation of Mr. Stuckey's joint-stock bank is stated as follows:—

“ In June 1830, it was	£155,000
Dec. 1830,	150,000
June 1831,	180,000
Dec. 1831,	150,000
June 1832,	170,000.”

¹ By a special arrangement, the branch bank at Bristol remit the revenue only from that city, from Bath, and Frome; they do not send to any other country town in Somerset for that purpose; “and it is to be hoped,” says Mr. Stuckey, “that they never will, because every one must admit that they are not fit to go to a country town, where frequently the taxes could not be paid without the assistance of the country banker.”—990.

² See *ante*, p. 49.

The cost of this circulation is calculated at about two per cent per annum, including the price of paper and printing, the stamps, the reserve kept at the different establishments, and the sum retained in the hands of their London banker. The profits are supposed to average between two and three per cent per annum. Their profits, like those of all other bankers, are derived from the interest on the sums of money which they have in circulation, and on account. Part of the advances which they afford to their connexions are made upon securities that are at any time convertible. They hold it as a principle of banking, that they should always be enabled to provide for the whole of their circulation, either by specie or Bank of England notes in store at home, or at the Bank of England branches, or by having Government securities in cash with their London banker, to the full extent ; that is to say, they have available securities always ready to get in in a day, to pay the whole amount of their circulation. The reserve of bank-notes and coin necessary to be kept at the different establishments varies according to circumstances. In ordinary times, a reserve of 2*l.* in every 20*l.* is amply sufficient. But if periods of alarm arise, then the reserve must be increased. A less amount of gold is now kept than formerly, owing to the facility that exists of obtaining it from the branch bank of England. The amount of their circulation varies very materially in the course of a few years. Whenever it happens, together with the deposits, to be considerably reduced, they look to that circumstance with attention ; but in case of an immediate demand, they generally revert, in the first instance, to the sale of their Govern-

Circulation.
Stuckey,
1,110.

1,179.

1,009.

1,113.

1,114.

1,013.

1,014.

Circulation. ment securities, rather than lessen their discounts on advances.

Stuckey,
1,015 to 1,032.

These establishments, in managing their circulation, refer to the foreign exchanges. The first thing they enter at every quarterly meeting is the market price of gold and silver, and the exchanges with Paris and Hamburgh. That entry serves as a beacon for the general management of their affairs. If the exchanges continue for any time unfavourable, they find that, without any interference upon their part, the circulation reduces itself pretty soon; if the exchanges remain long below par, they look with more care to their Government securities, under the impression that some of them must speedily be disposed of. Should these be sold to any extent, they gradually, for their own safety, lessen their discounts and advances, until their Government securities are replaced.

Whenever a contraction takes place in the Bank of England paper, a reduction also takes place in the circulation of these establishments, arising entirely from the action of the public upon them. At such a period they would act with more caution than usual; but if they were full of money, and saw every thing going on well, they would still give, though under other circumstances they would withhold, the usual accommodation. A contraction of the Bank of England notes during an unfavourable exchange operates a reduction in the circulation of country banks, in the same manner as a drain for gold, arising from the same cause, diminishes the circulation of the Bank of England. The action of the Bank circulation upon that of the country banks does not perhaps immediately take place; but it may

be laid down as a principle, that when the Bank are liberal in their issues, the same principle applies to the country bankers, and *vice versâ*. The state of the Bank circulation is known by that of the exchanges, and by money being plenty or scarce in the market. The country banks generally proportion their issues to the exchanges and to the state of the bullion, upon the same principle as the Bank of England. "There may be exceptions," says Mr. Stuckey, "because there have been some banks that have been very improperly conducted, but I think it is so with banks properly conducted."¹ Circulation.

IV. ISSUE OF NOTES.

Prior to the passing of the act of 1826, Mr. Stuckey's private bank issued one-pound notes, but not to an extent ever amounting to one quarter of its circulation. Since they have been withdrawn, their place has been filled up by gold and silver. When Mr. Stuckey was in the habit of issuing those notes, his whole circulation was greater than it has been since; but he did not then afford greater accommodation to the public than his joint-stock bank does now. The small notes rendered him but little assistance; he never approved of them, as he conceived that they were not profitable to a banker. Had they been circulating in Bristol during the late riots, he

Issue of notes.
Stuckey,
1,094.

1,097.

1,101.

1,102.

¹ The over-issues of the country banks in 1825 were not, however, in Mr. Stuckey's opinion, the main cause of the panic. He ascribes it to the Bank of England not having then attended to the course of exchange, and having been too liberal in their issues. No doubt, the country-bank paper had also increased at the same time, in the same proportion as that of the Bank of England, and both these causes concurred to increase the evil.—1,082. In point of fact, the circulation of the Bank of England paper was less in 1824 than it was in 1823: in 1825, it exceeded that of 1824 only by 120,000*l.*, until the panic came.—See 1,187.

- Issue of notes. is of opinion that every banking-house in that city would have been then pulled down. The issue of notes to the amount of 5*l.* and upwards, is, however, a privilege of considerable importance to country bankers. The accommodation which the establishments in question afford to their district, depends in some degree upon their power of issuing notes, though not entirely so.
- Stuckey, 1,173. Their deposit accounts and general business would
- 1,174. enable them to give some accommodation, but they could not afford it to the same extent as they now do, if they had no notes in circulation. Besides, the respectability of country bankers, especially in the west of England, rests a good deal upon their circulation. If they had no circulation, they would have less money on account, because they would be acting only as agents of the Bank of England, and very much of the money deposited with them would probably be withdrawn. They make a character by having issued notes that have for a long period been regularly paid;
- 1,175. and if those notes be convertible in London, it makes a bank known in all parts of the kingdom.
- 1,176. It might be, that in some counties a banker who issues no notes, and who is consequently liable for no circulation, but merely discounts upon capital placed in his hands, would enjoy greater credit than a banker who adds to the liabilities of circulation those also arising out of deposits. This, however, would not be the case in an agricultural county, accustomed to a bank whose notes have been regularly paid for the last
- 1,177. half century. A new bank issuing notes there would indeed be some time before they would come into credit. But the notes of well-established local banks

are taken and locked up, when those of the Bank of England would be refused; the former being known in their neighbourhood by their property and character. The proportion which the circulation of Mr. Stuckey's bank bears to its deposit and drawing account, is admitted to be very large; but every county has a different mode of doing business. Somerset has always been accustomed to a country-bank circulation: the counties in the north have a circulation composed of bills of exchange. There is no good reason, on any principle of banking, for the circulation of the country being confined to the Bank of England.¹

Issue of notes,
Stuckey,
1,149.

1,180.

1,233.

V. BRANCH BANKS OF ENGLAND.

With reference to the branch banks in that district, Mr. Stuckey states that his establishments have accounts with them, and that in some respects they afford great facilities, especially in the transmission of money. But in other respects the branches are injurious to those establishments, as they have taken away some of their best customers. Upon the whole, he, individually, would be glad to get rid of them, though it is very possible that they may be useful to the public. He would wish to deprive them of the power of taking money in upon account. If they would only take discount accounts, his objection to them would be in a great measure done away. He would wish that they should cease to be banks of deposit; though, as banks of issue, they

Branch Banks
of England.
Stuckey, 987.

1,116 to 1,140.

¹ At a late meeting of the committee of country bankers, it was unanimously resolved, "That it appears to this committee highly inexpedient that the circulation of the country should be confined solely to the Bank of England, and that they will exert themselves to prevent a measure so highly detrimental to the agricultural, commercial, and manufacturing interests."—1,233.

Branch Banks
of England.

also injure his circulation to a certain extent. They receive many dividends that used to be received by the country bankers. A bank lately failed in Launceston, and the branch got the assignee account, which, if there had been no branch, would have probably gone to Mr. Stuckey's establishment. In this, and a variety of other ways, they have a tendency to defeat the action of the private banks, and to grow upon them. It is true, that the latter, since the formation of the branches, have been obliged to lower their charges in some respects, and that so far the public have been gainers in the first instance. But if banks have not a fair remunerating profit, it cannot answer in the long run. The branches put the savings of the country into other channels. Whenever they afford accommodation, it is given upon general rules and written documents. The private banks make advances on personal knowledge and under peculiar circumstances, such as the steadiness and honesty of the party. But if the deposits all go to the branch bank, this accommodation can no longer be given, and such parties must suffer, to the injury of the industry of the country. As to the discounts which the branch affords to a private banker, it would be better for the latter not to have them. He can procure money, in most cases, on much better terms on stock or exchequer bills, than either from the Bank of England or his London banker. The branches may usefully do business in large places, but they are not calculated for the interior of the country. They do not lend money upon a deposit of deeds, or any thing of that sort.

Stuckey,
1, 185.

VI. JOINT-STOCK BANK AT MANCHESTER.

A joint-stock bank was formed at Manchester in the latter part of the year 1828, under the provisions of the act. The company consists of about six hundred proprietors; their subscribed capital is 2,000,000*l.*; their paid-up capital is a fraction short of 300,000*l.* They commenced business in March 1829, and have hitherto conducted it upon the system which prevails among the other private banks in that town. The partners are liable for the obligations of the bank to the extent of the whole of their property. They do not issue cash-notes, as they are called, that is to say, notes payable on demand. They issue paper payable at a distance of time, consisting chiefly of bank post bills, at seven days after date, and drafts on their agent in London at thirty, sixty, and ninety days. The bank post bills are for various amounts, principally between 50*l.* and 100*l.*, though they have plates as high as 500*l.* When they first commenced business, they issued bank post bills payable in London for sums under 50*l.*; but the solicitor to the institution having suggested that they were illegal, they were discontinued.

Joint-stock
bank at Man-
chester.
Dyer,
4,120 to 4,129.

With reference to the general character of the transactions of this bank, it appears that of the last 2,000,000*l.* and odd which have been paid, about 1,000,000*l.* were paid in Bank of England notes and specie, the latter being in the proportion of one-ninth; 90,000*l.* in re-issued bills of exchange; 753,000*l.* in drafts of the Bank on their agents in London, and in acceptances of customers; and 185,000*l.* in bank post bills. The drafts on London would be paid at Manchester, the

Joint-stock
bank at Man-
chester.

same as any other bill. It is seldom that they are sent up for acceptance ; the security of the bank being considered unquestionable, parties do not find it necessary to put themselves to the trouble and expense of getting the drafts accepted ; so that, generally speaking, they go up for the *bond fide* purpose of being paid, or as remittances for payments that require to be made in London.

It is a serious impediment to the business of the bank, that they cannot create cash-notes payable in London. Unless the notes were so payable, they would not, in the present feeling of the public, keep out a sufficient length of time to serve the purpose either of the community or of the banker, namely, profit upon the capital. The bankers in Manchester who (having less than six partners) are entitled in law to issue notes payable in London, abstain from exercising the power which they possess, on account of the dislike that has always existed in Lancashire to the circulation of local bank paper.

The joint-stock bank in question have an account with the branch Bank of England established in that town, but they do not discount with it. A negotiation was entered into with a view to obtain from the branch the facilities which it affords in that way to other country bankers ; but the privilege was refused, on the ground that Manchester was already full of Bank of England circulation. Hence they are obliged to have their bills discounted through the agency of a broker in London, who charges a commission, which is ultimately paid by the party for whose use the discounts are obtained. That commission would be saved, if the dis-

counts could have been obtained from the branch. Farther, not only the joint-stock bank at Manchester, but the Lancashire bankers generally, sometimes discount for their customers at a loss, being obliged, in consequence of an unseen influence which operates to their prejudice, to supply money to their customers at a cheaper rate than they pay for it. It is only in the way of commission that they can gain any profit. The rate of interest which the joint-stock bank charge on discounts varies from three to four per cent, and a quarter per cent commission. They allow two and a half per cent upon deposits, and upon running accounts three per cent. If these accounts be overdrawn, the same rate of interest is charged, and upon all payments a quarter per cent commission is deducted.

Joint-stock
bank at Man-
chester.

Dyer.
4,157.

The price of the stock of this bank was, in July 1832, a little over 19*l*. for every 15*l*. paid up. A dividend of six per cent was paid upon the capital in the year 1831, when a full report was made of the funds out of which it arose. The report stated the total amount of the capital, the profits gained by the business of the year, the sum divided, and the surplus fund not divided. The surplus fund consists of the whole of the profits of the first year of the bank, which were not divided, but carried to a fund called the "Reserved Surplus Fund," set apart for the purpose of providing for unforeseen losses and bad debts. After the payment of the dividend in 1831, there was a balance in favour of the company, which was added to that fund.

4,265.

4,267.

4,271.

Smith, 4,310.

4,315.

CHAPTER XVIII.

IMPROVEMENTS SUGGESTED—OPINIONS OF MR. HORSLEY PALMER WITH REFERENCE TO THE PROJECTS OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER IN THE INTERIOR OF THE COUNTRY—OF CONFINING THE PAPER CURRENCY OF THE KINGDOM TO NOTES OF THE BANK OF ENGLAND—OF HAVING ONLY ONE ISSUING COMPANY, AND THAT DIRECTED EXCLUSIVELY BY COMMERCIAL INDIVIDUALS—OF OBTAINING SECURITY FOR THE CONDUCT OF THE BANK—OF PUBLICITY OF ACCOUNTS—AND OF GIVING A LEGAL CONTROL OVER THE BANK TO HIS MAJESTY'S MINISTERS.

I. PROJECT OF MAKING BANK PAPER A LEGAL TENDER IN THE COUNTRY.

Legal tender. SUBSTANTIAL relief would be afforded to the circulation, if it were provided by law that the country banker might make his payment in Bank of England notes; or, in other words, if notes of the Bank of England were made a legal tender from all persons save the Bank itself. The Bank would then be the only outlet of coin. It is believed that a five-pound note of the Bank, if it were a legal tender, would be a bar to any extensive demand for gold in the interior, in times of commercial discredit. It does not follow that such tender would relieve the Bank from all the effects consequent upon a

Palmer, 97.

98.

621 to 632.

discredit of private paper money. But relief would be afforded, in limiting the first demand for gold, upon such an event occurring. In a period of general political discredit, no coin that the Bank can hold can be equal to the demands of the public. No provision can be made against such a state of things; but in a case of mere commercial discredit, such a regulation would be desirable, and might be carried into effect with safety.

Legal tender.
Palmer, 820.

If it be objected, that this measure, by giving the power to the country banks of paying their circulation in Bank of England paper, would tend to encourage them to issue their own notes to excess, the answer is, that they must first get the Bank of England paper before they can use it. They would find no greater facility in obtaining Bank notes than they would in obtaining gold. Such a regulation would bring no increase of profit to the Bank; they cannot issue five-pound or ten-pound notes at a less charge than they can advance gold, as they are always under the necessity of keeping a given proportion of bullion against the notes which they have in circulation; and nothing ought to disturb that proportion except the foreign exchanges. The beneficial effects of this arrangement would be extended still farther, if the branch banks were not compellable, at all times, to pay the notes of the Bank in gold.

If the making the five-pound Bank of England note a legal tender were to have the effect of withdrawing the gold coin from the circulation of the interior, it would certainly entail considerable inconvenience upon the persons who now use sovereigns and silver. But it could not have any such effect. The apprehension of

645 to 654.

Legal tender. the very inconvenience here contemplated would prevent such a withdrawal from taking place. The want of a circulating medium between five-pound notes and silver would make it absolutely necessary, that the sovereigns should remain in circulation as they now are. It is possible that an arrangement of this nature might diminish the amount of gold, which country bankers would retain in their possession. But still they would find it necessary to reserve a fund in specie. They might, under such proposed law, refuse to give any exchange for a five-pound note of their own, except a five-pound note of the Bank of England. But they must necessarily look to the convenience of their neighbourhood: it would not be possible for them captiously to refuse that accommodation which is expected of every banker. It might happen that a person presenting a five-pound note, and requesting sovereigns for it in exchange at a country bank, should be asked for a premium for the accommodation; but it is not probable that such a difficulty would arise.

II. PROJECT OF CONFINING THE PAPER CURRENCY TO NOTES OF THE BANK.

Confining
currency to
Bank paper.
Palmer, 440.

It would be an advisable mode for the country, if the whole of the paper circulation were to consist exclusively of notes of the Bank of England, provided the country bankers concurred in such an arrangement. Country bankers who propose to act with Bank of England paper, are now supplied with a fixed amount of credit, or notes, equivalent to their average circulation, upon the security of good bills, at an interest of three per cent. The average is taken by agreement, and

they do not pay interest on the Bank notes until they issue them. No state of the circulation would induce the Bank to depart from their agreement in such a case. Whatever the amount of that circulation may be, they have always, under ordinary circumstances, a proportion of bullion to meet it; and it is therefore of no consequence whether their notes be issued in the country or in London. The amount being once fixed, the average will of course remain the same, so far as the Bank are concerned. Should the country banker require a supply of notes beyond the amount agreed upon, he would be accommodated, in the first instance, upon the security of negotiable bills; but if the Bank were indisposed for any reason, at the period of such a demand, to extend their general issues, they would afford the accommodation upon the condition of being permitted to negotiate the securities so given in the London market; thus keeping their circulation still at the same amount. So long as the country banker does not exceed the fixed amount, the securities which he has given to the Bank are not negotiated.

Confining
currency to
Bank paper.
Palmer, 888.
892.

471.

473.

890.

892.

894.

895.

It is true that a country banker would find the issue of his own notes less expensive than that of the notes of the Bank of England, because he may re-issue his own paper as long as it lasts. But he has this inducement, that by acting with the Bank of England notes, he is relieved from all anxiety and risk of a run, and of convertibility when demanded.

427.

430.

Generally speaking, security is the first object with a country banker, with reference to the management of his circulation. Provided the securities be good which are tendered to him, and such as he considers to be

119.

Confining
currency to
Bank paper.
Palmer, 900.

strictly marketable, he has probably no objection to issue his paper upon them. In the agricultural districts bankers are said to be in the habit of giving accommodation without receiving negotiable securities; and it would of course follow, that where that mode of conducting business prevails, the arrangement here proposed could not be carried into effect. But, in both cases, a more prudent system of accommodation would be established, if the paper of the Bank of England were the only paper in circulation. The credits mentioned as being given by country bankers upon securities not negotiable, ought, in Mr. Palmer's judgment, to be limited to a moderate proportion of the deposits, and not made by paper money payable on demand. It may

901. be the fact, that in many country towns the bankers very rarely make advances upon any thing that would be justly called negotiable securities; but the propriety of such advances, to the extent alluded to, is very ques-

902. tionable. There are two descriptions of deposits; one the value received for the paper money, the other the deposits of individuals; and Mr. Palmer is of opinion, that no part of the former ought ever to be advanced by a country banker upon securities which are not negotiable, unless he be possessed of private capital to the same extent convertible on demand.

If the country bankers, instead of issuing their own

903 to 909. notes, were, as a general practice, to become agents for the circulation of Bank of England notes, the effect would certainly be to impose the responsibility for the whole amount of the circulation upon that institution. Cases might be conceived of political alarm, in which persons in a remote district in the country would con-

sider the paper of the Bank less secure than that issued by gentlemen in their immediate neighbourhood. But such instances would be of very rare occurrence. No reasonable doubt can exist, in any part of the country, of the perfect solvency of the Bank. If a period of discredit were to arise from such a cause, it would be very limited; and it is not apprehended that any such feeling would operate against a bank-note circulation. It may have happened, at a moment of political excitement, that in some places the local notes have been actually preferred to Bank of England paper. But, on the other hand, the occurrences at Norwich, in 1825, shew, that in places where the local notes were discredited those of the Bank of England were eagerly taken.

Confining
currency to
Bank paper.

Under the present system, it can scarcely be questioned that every country banker issues without reference to the foreign exchanges, and upon such securities as represent the existing prices, he having little means of judging whether those prices are above or below the relative values in other countries. It is quite clear that he will not issue his own paper, with a knowledge that that paper will be returned to him the next moment for payment; but it is equally clear, that, with a general knowledge of the prices throughout the country, he will make his own issues with reference to those prices.

Palmer, 912

913.

A banker only issues legitimately upon a demand, and that demand arises upon the prices of the country. But those prices may, by excitement or speculation, be above their relative value with respect to foreign countries. "In such case," says Mr. Palmer, "I hold an

371.

fining
rency to
nk paper.

over issue to exist ; and I say this without meaning, in the slightest degree, to infer a charge against the banking interest in that action."

mer, 914.

- The available assets which the country banker holds in London for the purpose of meeting his issues, are securities supposed to be marketable, and which he relies upon being able to convert into Bank paper or coin whenever demands are made upon him, either in the country or London. The possession of those assets, however, in no way prevents the possibility of excess in the country issues, which may occur without the country banker being chargeable with the cause. The mere
915. necessity of paying his notes in London, or wherever they are required to be paid, is not of itself a sufficient
916. check to over issue. It is not as complete a check, as the payment of the notes of the Bank of England in gold is against over issues on the part of the Bank ; because the country banker relies upon the purchase of Bank paper in London with the securities he holds, after the excess has been created, which excess is the evil complained of. It is by no means contended that a country banker has not the power of upholding his credit against an excessive issue, if he be a person of
917. property ; but the excessive issue will not therefore be the less injurious to the community. The difficulty is
918. for the country banker to know when general prices are in excess, upon which his issues are made. He, therefore, is the more likely to sustain inconvenience from a suddenness in the returns upon him, at a time of scarcity of Bank of England paper, occasioned by an adverse foreign exchange. He is apprised of the state of the exchanges, in the same manner as the Bank of

England, by his notes being returned upon him; but the demand upon the country banker is seldom, except from internal demand, simultaneous with that upon the Bank; the former will generally follow at some distance of time, when it arises from an adverse exchange, and then provision must be made to meet it. He may obtain Bank of England paper in exchange for his securities, without going to the Bank for it; but the value of that paper, wherever it is obtained, is considerably enhanced at the moment by the increased demand; and that adds to the pressure upon the Bank at such a crisis. From this inconvenience of over issues, the country banker, as well as the Bank of England, would be relieved, if the notes of the Bank were the only paper in circulation. It might be imagined that the effect of a country banker withdrawing his own notes, and issuing those of the Bank of England, would be to create doubts as to his character and solvency; but it is not easy to understand why it should have that consequence, or why the credit of a country banker should be more affected by issuing Bank of England paper exclusively, than that of a London banker who acts upon the same principle.¹ It may be admitted that a country bank note, being signed by a hand perfectly known in the district where it circulates, is more secure against forgery than a Bank of England note, signed by a hand with which the district is not so well acquainted. But the country-bank circulation is not the more safe on that account. The forgeries upon the branch bank notes have been

Confining
currency to
Bank paper.
Palmer, 919.

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¹ In a note, *ante*, p. 26, it is said, that only *four* country banks have adopted the system of acting with Bank of England paper. That is a mistake; the number is considerably larger, and from time to time increasing; but it cannot be stated at present with accuracy.

Confining
currency to
bank paper.
Palmer, 855.

very few: there are probably forgeries of Bank of England paper constantly in circulation, but at present only to a small amount.

III. OF HAVING ONLY ONE ISSUING COMPANY, AND THAT DIRECTED EXCLUSIVELY BY COMMERCIAL INDIVIDUALS.

Issuing com-
pany.
Palmer, 551.

Being convinced that a single establishment would be better for the management of the circulation of the country, than having notes issued by different banks, Mr. Palmer is further of opinion, that that single establishment ought to be a commercial company, independent of the Government. A commercial bank, 553. formed as the Bank of England is, has the power, from the constitution of its body, of affording assistance to the commercial world which no political bank could 554. offer. A bank formed of commercial individuals, with a capital totally disconnected from Government, appears 555. likely to answer every desirable purpose. A bank formed of political individuals, or of commissioners, would not have the same general knowledge of the mercantile transactions of the country, as a body formed of com- 556. mercial persons. The knowledge of individuals applying for aid which a commercial body possesses, is essential, in order to enable that body to give assistance properly to trade in times of difficulty; and that assistance should be afforded by persons independent of any political connexions or considerations. For instance, at the period of the panic in 1825, if there had been a 558. Government bank in existence, it could not have been readily managed by commissioners, considering the magnitude of the aid that was given upon that occasion.

On the other hand, if there had been at that period no single establishment entrusted with the London circulation, but a number of bankers issuing their own paper, they would not have been willing to have run the risk, and to have taken upon themselves the responsibility of making those large advances, which, it appears, were so necessary to the security of private credit in London at that time. It would not have been possible for any number of bankers to have done it. From the natural action of one upon the other, the balances must have been paid in coin; and it would have been quite impossible for ten bankers issuing paper money to have so adjusted the balances, at a time when the bullion must have been reduced to the lowest possible state from foreign demand. If there had been even only two or three great banks then established in London, they would have been so much afraid of being acted upon by their rivals, that it would have been impossible for them, in an emergency of that kind, to have acted with any confidence. Their existence through such a crisis would have depended upon their possession of an adequate supply of gold; and it would not have been in the power of a set of bankers carrying on trade in London, possessed of even from twenty to thirty millions of capital, to have obtained and kept such a supply of gold as would have placed them, under all the circumstances of that crisis, in a situation of security.

It is *possible*, that if the currency of London had been established under the management of several banks for a considerable period prior to the year 1825, the crisis which then took place might not have occurred. But it is not apparent how the action of such banks

Issuing company.
Palmer, 586.

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ing com- would have prevented the panic. On the contrary, they
y. would have had rather a tendency to increase it. The
mer, 599. risk then encountered by the Bank, in making advances
597. to the commercial world, was greater than any private
individuals would have undertaken, inasmuch as the
Bank made many of those advances upon the simple
deposit of title-deeds, without having the power of exa-
mining them, relying upon the credit of the parties to
whom the property was stated to belong. The Bank,
602. on that occasion, acted entirely upon considerations of
commercial expediency, and without any guarantee
whatever from his Majesty's Government. The ministers
were aware of every thing that was going on; but the
603. measures adopted were those of the Bank, as a body,
and the only one that could give the assistance in Lon-
don which the commercial interests required.

592. The panic did not arise originally out of over issues
on the part of the Bank. Excess of that description
would not have been prevented by, but, on the contrary,
592. would have been the probable consequence of, the com-
petition of several private banks of issue, had such
banks been in operation in London when confidence
and apparent prosperity prevailed. In such times pri-
600. vate banks of issue, it has been seen by experience, are
the first to increase the circulation instead of diminish-
ing it. In Scotland, where the banking business is
governed by large public bodies, their action is prejudi-
cial, as it tends even more to excess than the action of
595. private bankers. The Scotch banks are establishments
possessed of great credit and property; but whenever a
demand arises upon them, they have not the means of
meeting it without coming to the Bank of England.

An action by the Bank of England in competition with private bankers would necessarily lead to an undue reduction in the value of money; and although it be desirable for the public that the rate of interest should be as low as possible, nevertheless, the reduction of it by competition on the part of the Bank would tend to excess, thereby raising the prices and turning the exchanges against the country, which would occasion a re-action more prejudicial in its effects than any previous benefit to be derived from a temporary fall in the rate of interest. All competition by great capitalists is more prejudicial than that by a number of inferior capitalists.

Issuing company.
Palmer, 562.

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IV. OF OBTAINING SECURITY FOR THE CONDUCT OF THE BANK.

Undoubtedly, if the whole of the paper circulation of the country were issued by one commercial and irresponsible body, such as the Bank of England is, the amount of the circulating medium would depend entirely upon the discretion with which the power of the Bank might be exercised. The only security which the public have for the due exercise of that discretion is confidence in the conduct of the Bank, and the knowledge, on the part of his Majesty's Government, of that confidence being deserved. An interference of the Government, such as that in paying off the interest of the funded debt in 1824, might again derange the state of the currency; but it would not derange the issues of the Bank (as a lesson of caution has been already given with reference to that point) further than the foreign exchanges might operate upon them, and

Security for the conduct of the Bank.
Palmer, 657.

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Security for
the conduct
of the Bank.
Palmer, 673.

those exchanges might always be rectified without a crisis.

The process for rectifying the exchanges takes place in this way: The first operation is to increase the value of money by a reduction of issues. With the increased value of money there is less facility obtained by the commercial public in the discount of their paper; that naturally tends to limit transactions and to reduce prices; the reduction of prices will so far alter our situation with foreign countries that it will be no longer an object to import, but the advantage will rather be upon the export; the gold and silver will then come back into the country, and rectify the contraction that previously existed. This process takes place through the action of the public on the Bank. When the exchanges are unfavourable, the consequences is an exportation by the commercial men of bullion, and that bullion is obtained from the Bank by the merchants returning bank notes for the bullion so exported. The Bank circulation is thus *pro tanto* contracted, and that contraction produces the consequences just stated.

Thus, in 1825, between the month of February and the beginning of December, a reduction of three millions and a half was made in the amount of the Bank circulation. But although the panic was immediately preceded by that contraction, it does not follow that the panic was caused by it. A contraction to the amount of four millions took place between the month of February 1831 and the conclusion of that year, without creating a commercial crisis. At the latter period the circulation of the Bank was sixteen millions and a half; if it had been still farther reduced by two or three millions,

Bank-notes would have been returned to that extent. But in the course of that return, if the scarcity of money had become so considerable as to raise the rate of interest to the Bank's public rate, merchants would have applied to the Bank for a re-issue at such rate. If there had been a foreign demand for bullion at the time, it is probable that the Bank, while giving the discounts, would keep their circulation still the same, by selling Government securities. No positive conclusion can be drawn, with reference to the state of commercial credit, from any supposed quantity of Bank-notes which may be in circulation. Had the further reduction of two millions above alluded to taken place, in consequence of a drain of gold from abroad, it would certainly have produced a material effect upon the value of money; but such a drain must have depended in a great degree upon the state of the prices in England, with which the gold must have been purchased for foreign use. Supposing that a drain had taken place from disturbances abroad, or from the failure of credit in Scotland or Ireland, or any part of England, still it does not follow that a commercial crisis would have been the consequence; for if gold be required for any part of the world, it must be paid for in some produce which finds a market in the place where the gold is purchased; and the existence of such a market is incompatible with the fact of commercial difficulty.

Security for
the conduct
of the Bank.

Palmer, 703.

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709, 712.

V. PUBLICITY OF ACCOUNTS.

The publicity of the accounts of the Bank would, undoubtedly, be a check upon their management of the monetary system, provided there were no other body

Publicity of
accounts.
Palmer,
723 to 740.

but the Bank circulating paper money. It would be no check, unless an equal publication were effected by every other body exercising the same power; and in that case the check would be efficient as to all other parties issuing paper money, provided they afforded security for the proper management of their circulation equal to the security that might be obtained from a body like the Bank of England, saving always the liability to political discredit, or internal demand of an unusual character, that might give rise to a pressure for coin which no banks issuing paper money could sustain. Such a pressure might arise without publicity of accounts; but publicity would increase the liability. If the demand took place at a period after a considerable reduction of the stock of coin occasioned by a long adverse foreign exchange, the knowledge of that fact on the part of the public might tend to increase the demand. There have been instances when such a publication might have occasioned a total exhaustion, from the apprehension that the demand could not be supplied. If, for example, at the time when the panic of 1825 was at the highest, the Bank had been under an obligation by law to publish the whole amount of coin and bullion remaining in their coffers, the inevitable consequence would have been an exhaustion of the whole remaining treasure. A knowledge of the small sum in bullion which then remained would have fomented the public alarm. That run would not have taken place if the Bank had been the sole issuer of paper money, or if the Bank paper had been then a legal tender in the interior of the country. But if the Bank had been free from the liability of being

called upon to uphold the private paper money, and from the perils of political discredit, such a publication might have been made with perfect security in the year 1832. Had such a publication taken place in the month of May in that year, however, the Bank would have been endangered by it. If the treasure had been then reduced very low, and the fact had been publicly stated, commercial discredit might have followed, and the Bank might have been drained of its last sovereign.

Publicity of
accounts.

If any publication were to be directed, a retrospective statement, exhibiting the average of the transactions, the liabilities, and the means of meeting them for an interval that had elapsed, would be preferable to any other. No material objection to it would arise from the possibility of a panic being created by a knowledge on the part of the public that the treasure of the Bank was extremely low, provided the circulation were limited to the notes of the Bank of England. In such case, it would be the duty of the Bank to provide against any very great reduction in ordinary cases, that is, by being supplied with a full proportion of treasure, with reference to the liabilities, before the drain might commence. The panic of 1825 arose from the discredit of the internal paper money, which would not have existed if the Bank had been the only issuing body.

Palmer, 749.

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The periodical publication of the affairs of the Bank, if it were to take place in the present state of paper money, ought to have the effect of facilitating the transactions of private banks of issue, by imparting to them a knowledge of the state of the bullion of the Bank. It ought to operate as a guide; but it is not improbable

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Publicity of
accounts.
Palmer, 757.

- that a private issuer of paper money would generally take the chance of obtaining the Bank paper, when he might require it, and would leave the responsibility to the Bank to meet the demand for coin when it arose.
758. A prudent country banker, who might be apprised of the cause of an existing adverse foreign exchange, likely in its effect to reduce the credit and prices of his neighbourhood, would feel it necessary to be more cautious in his accommodations at such a period than he otherwise would be. But the printed rates of exchange are no criterion; and even if the state of the bullion were periodically published, it must always be a matter of some difficulty for a country issuer of paper to know, at an early period, the cause of a demand for
761. gold upon the Bank. There might be temporary demands for export unconnected with an unfavourable commercial exchange; or there might be demands for coin upon the Bank for Scotland or Ireland, or any part of the interior of England, which might diminish the stock of bullion; and therefore any criterion that he formed from the actual diminution, as appertaining to an adverse commercial foreign exchange, might in such times be erroneous. All that he could
762. learn with certainty from the publicity alluded to would be, whether the Bank's bullion was upon the increase or decrease; and by that circumstance he might govern his
767. action so far as he might think fit. But unless security were given, that the issue of paper money by other bodies was placed upon the same foundation as that of the Bank of England, it never could, in Mr. Palmer's opinion, be expedient to publish the fluctuation of bullion in the Bank of England. The amount of bullion

which the Bank hold, is the only secret which they think it of importance to preserve in their affairs, so far as regards the public, in the present state of the circulation of the kingdom.

Publicity of
accounts.
Palmer, 780.

If the present system of paper money be retained in connexion with publicity, it appears indispensable that all banks of issue should be placed precisely on the same footing before the country, by a publication of their liabilities, their securities, their cash reserves, and also their capitals. It would be necessary that the country should have perfect reliance upon the property of the banks so issuing, as well as their liabilities. The character of the property need not, perhaps, be discriminated; but the capital which upholds the credit of the bank should be known, in the same manner as the capital of the Bank of England is known. The public should be assured, from the nature of those publications, that a power existed on the part of every issuing bank in itself to meet the demands upon it. If that confidence were not obtained, no adequate security would be afforded to the Bank of England, which would still be liable to be called upon to support private paper money to an unknown extent. The Bank could not, under the present system, so far as regards the issue of paper money, permanently carry on their business, if their affairs should be published to all the world, while all those dealing around them should cover *their* transactions under a veil of secrecy. If parliament required the Bank to publish periodically the amount of their gold, it should also require the country bankers to state the amount either of their gold or of their Bank of England paper convertible into gold. Such publication

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- publicity of
accounts.
Palmer, 837.
- should be for a period not less than every six months, to be of any use as a guide. It is probable, that under
838. such an arrangement the country bankers would relinquish their own circulation altogether; and, if it
839. could be satisfactorily managed, such a result would be more beneficial to the country than the present system, provided it should happen with the concurrence of the banking interests. Nothing could be more impolitic or
879. more prejudicial to the community, than an interference with the legitimate business of country bankers; but the relinquishment of their own circulation, and the substitution for it of notes of the Bank of England, would not lead to any such interference. "At the same time," observes Mr. Palmer, "I beg to state that
838. I am not advocating the propriety of any publicity, nor giving any opinion as to what it is desirable for country bankers to adopt. I am only anxious to answer the questions put to me to the best of my ability, understanding their object to be, whether the Bank of England can, with any reasonable degree of safety to the corporation, publish their fluctuation of bullion, without similar publication by other bodies issuing paper money in the interior, whether England, Ireland, or Scotland."
859. Publicity, if it were required from all banks, would be the best security which could be obtained against abuses in issuing paper money, although there might
860. be many objections to it. No regulation of the kind could ever amount to a complete security; but it would
861. check the opening of banks without sufficient capital, and the issuing of paper upon mere speculation. Where capital existed, it would in all probability have the

effect of giving confidence to the immediate vicinity of a bank possessed of that capital, and issuing its own notes. If it did not issue paper money of its own, there would be no occasion for the publication of its affairs; as it is only in the event of such issue that the public at large become interested in its concerns.

Publicity of
accounts,
Palmer, 862.

911.

877.

VI. OF GIVING A LEGAL CONTROL OVER THE BANK TO MINISTERS.

If the Bank were not called upon, in the present state of paper-money circulation, to publish their amount of gold, a security for the increase of that amount, if it should at any time be deemed too small, might be obtained by vesting in his majesty's ministers the requisite power of control, provided parliament should think fit to grant it. The ministers, however, would have no other means of exercising such a power, than by directing the Bank, if to them it seemed expedient, to contract the amount of paper money in circulation, which contraction would eventually act upon the whole currency of the country. There is no order that could be made, which would enable the Bank to obtain a permanent increase of its stock of gold, otherwise than through a reduction in the general prices of the country, unless the Bank were possessed of a stock of silver bullion, which they might exchange for gold. The Bank, as already explained,¹ would be provided, in a period of full currency, with a proportion of bullion to the amount of one-third of their circulation. If, in the period of a contraction arising from an unfavourable exchange, that amount fall below one-third, the

Legal control.
Palmer, 807.

808.

810.

¹ Page 89.

gal control. ordinary result would be again to recover the amount diminished, or perhaps more, upon the return of a favourable exchange. In case of such diminution taking place from that cause, the Bank would not, of their own accord, immediately proceed to restore the proportion; nor would the publication of their accounts (if they were to be published) have the effect of inducing them to put into operation any other measure than they have hitherto adopted for that purpose.

lmer, 811.

CHAPTER XIX.

OPINIONS OF MR. STUCKEY, WITH REFERENCE TO THE
PRECEDING PROPOSED ALTERATIONS — IMPROVE-
MENTS AS TO COUNTRY BANKS SUGGESTED BY MR.
STUCKEY, MR. FORSTER, AND MR. WILKINS.

I. MR. STUCKEY — LEGAL TENDER.

IT would be very desirable that a power should be lodged with the Government, of authorising the Bank, under certain circumstances, to pay in uncoined gold, as they have done before ; and that under such circumstances the country banker should be entitled to pay his notes in Bank of England paper exclusively. Periods of alarm may arise, in which almost every body demands sovereigns, and it may be impossible for a banker to comply with such demand, although he may be possessed, at the moment, of abundance of property. Had the Bank of England note been a legal tender in 1825 on the part of country bankers, some of the inconvenience of that period might have been avoided. An enactment, that Bank of England paper should, at such a period, be made a legal tender for the country banks, would have a tendency to secure the public against those great fluctuations which are so prejudicial. In point of fact, it acts as a legal tender at present in most cases ; but times might arise when it might not be so

Legal tender.
Stuckey,
1,057.

1,058.

Legal tender. received.¹ It would be no accommodation whatever
 Stuckey, to a country banker if, in a period of discredit, he
 1,065. were enabled to pay to the amount of five pounds in
silver, instead of forty shillings, to which he is now
 limited by law.

II. LIMITATION OF THE PAPER CURRENCY TO NOTES OF THE BANK OF ENGLAND.

Limitation of
 paper cur-
 rency.
 Stuckey,
 1,146. If the whole circulation of England had been nothing
 but Bank of England notes during the months of May
 and June 1832, they would have been obliged to pay
 away much more gold than they had paid in conse-
 quence of the excitement which then prevailed. The
 general feeling was then more against the Bank of Eng-
 land than against country banks, or rather in favour of
 having gold, with a view to serve a particular purpose
 as against the Bank and the (proposed) Government.
 In case of a panic arising from political, or even occa-
 1,148. sionally from commercial, circumstances, less confidence
 would be reposed in the Bank of England paper than
 1,149. in that of some country banks. If the whole circula-
 tion of the kingdom consisted of Bank of England
 paper only, it would frequently be attended with greater
 pressure on the Bank, than the mixed circulation which
 now exists. Country bankers of property and character
 are known in their neighbourhood, and their notes are
 hoarded where those of the Bank of England would
 1,150. not be kept. Had the branch banks been in opera-
 tion during the panic of 1825, many of them must

¹ Mr. Stuckey states, that in May 1832, the public preferred gold, and even the notes of his bank, to those of the Bank of England.—1,059. But he ascribes that discredit to political motives, not to any actual distrust.—1,061.

have dropped, because when the people got their paper, they would have gone immediately and demanded sovereigns for it. Limitation of paper currency.

Besides, the notes of country bankers are so well known in the neighbourhood where they circulate, that attempts are rarely made to forge them. Since the improvements which have been recently effected in the engraving of their plates, they feel as much security as such a subject will admit of, against losses arising from that source. But it is not so with Bank of England notes. "I have often," says Mr. Stuckey, "heard farmers who brought Bank of England notes to our counters say, for any thing they knew, those notes might be forged, but that they knew our paper." If it happened that a mischievous rumour were circulated in the country, importing that there were a great many forged Bank of England notes in circulation, and that that rumour prevailed at a time of a panic, it would decidedly produce a much more prejudicial effect in shaking the public confidence, if the whole circulation consisted of Bank of England paper, than if it consisted, as it now does, partly of that paper, and partly of the notes of country bankers. A circulation that should rest upon the security of separate banks scattered over the country, would be less liable to universal distrust than a circulation issued by one great body, however responsible.

III. ONE BANK OF ISSUE.

The distance from London of banking companies with an unlimited number of partners might, perhaps, be safely reduced under sixty-five miles; but they ought

One bank of issue.
Stuckey,
1,202.

218 SECURITY FOR THE CONDUCT OF THE BANK.

One bank of
issue.

Stuckey,
1,214.

not to be permitted to enter the metropolis. A variety of banks in London, where the foreign exchanges are regulated, would be dangerous. Had a number of such establishments been in operation in the metropolis at the period of the panic, the Bank could not have issued the notice which they published in the midst of the alarm, of offering to lend money upon Government securities. That was a very proper notice, and it did great good.

IV. SECURITY FOR THE CONDUCT OF THE BANK.

Security for
conduct of
Bank.

Stuckey,
1,208.

1,209.

1,211.

1,212.

1,213.

1,217.

Although the panic of 1825 was caused by an over-issue on the part of the Bank, in which excess the country bankers participated, yet the public have a security against the recurrence of such mismanagement in the experience of the past. The subject, moreover, is much better understood than it was. Before that time, the Bank did not sufficiently look to the course of the exchanges; but by the system of management which they have since adopted, they have kept the exchanges more equal. The only security that exists for the continuance of that principle of management, is the fact that it is essential to their own safety. Beyond this, the public have no guarantee for the good management of the affairs of the Bank. But there is no business in which the public have any security. There is every reason why dependence should be placed upon the principles that now guide the Bank of England—principles that will prevent them from getting into any difficulty, unless it be at a period of political or popular commotion, for which they would be in no way accountable.

V. PUBLICITY OF ACCOUNTS.

There can be no objection to the publication of a general account of the state of the Bank periodically, with reference to an interval antecedent to that at which the publication is made. But it would not be prudent, or even safe, for them to disclose to the world the amount of bullion and coin in their possession. Suppose the Bank have 30,000,000*l.* of circulation, 10,000,000*l.* of sovereigns, and 20,000,000*l.* of Government securities; the ten millions of sovereigns would not of course pay all the circulation, and yet the Bank would be perfectly solvent. But ignorant persons, looking only to the amount of the gold, might not think so, and then alarm might arise. If publicity could operate as a check upon the Bank, and prevent jerks in their circulation, it would be very desirable. But the publication of their bullion, by giving rise to unnecessary apprehensions, would tend to produce those very jerks, and to render the conduct of the Bank unsteady. If their specie were run low, and they were obliged to contract their circulation by a sale of Government securities, that would render it necessary for the country bankers to make a corresponding contraction by similar means. And if these were apprised of the intention of the Bank, as they would be by a publication of the bullion account, so to contract the circulation, a simultaneous action would take place among the country bankers, which might impede the Bank in righting themselves by the sale of their Government securities in London. Such a publication of the state of the bullion would therefore be objectionable.

Publicity.
Stuckey,
1,046.

1,045.

1,067.

1,049.

1,053.

1,054.

1,055.

1,056.

Publicity.
Stuckey,
1,106.

With respect to country private banks, the publication of their assets and the demands upon them, in detail, would necessarily affect their credit, although that would very much depend upon what those assets and demands were at the time. But though they ought to return their circulation periodically, they ought not to be called upon to submit to the same degree of publicity as a chartered company. Those who ask for privileges ought to pay a stipulated price for them. The mere issue of paper money is no privilege: there is very little difference between that operation and drawing a bill of exchange.¹

1,108.

1,109.

VI. IMPROVEMENTS IN COUNTRY BANKS.

Improve-
ments in
country
banks.
Stuckey,
1,044.

All joint-stock banking companies ought to be bound to return annually a statement embracing an account of the whole state of their concerns. If a bank be permitted to have a charter, the parties granting the charter ought to require such a statement. But although such an account ought to be laid before Government, it would be quite a different thing to have it published in the newspapers. It would make the country banking perfect, if the Government had the power of granting charters with a limited responsibility. For example, if a party advanced 2,000*l.* he might be held answerable to the extent of 6,000*l.* or 8,000*l.* "I know that many gentlemen," says Mr. Stuckey, "do not like to join in

1,045.

1,203.

¹ The next witness in the order of examination, Mr. Beckett, upon being asked whether "there was any alteration of the powers of the Bank, or with respect to the establishment of branch banks, which he would recommend to Parliament with reference to the interest of his particular neighbourhood and business?" answered, "I do not recollect any; we are quite satisfied with it as it stands at present."—1449.

a bank, because the responsibility is not limited. I have heard it frequently said, ‘ I do not like to risk 100,000*l.* of property to take 5,000*l.* in a bank; but if you had a limited responsibility I should join it at once.’ ” If the public were aware that each individual in a company was not responsible to the whole amount of his property, it ought to have some security; the Government granting the charter should require from each company an account of their assets, annually at least. The public would have entire confidence in such a company, even though each member of it might be responsible to twice or three times the amount of his share; if there were many respectable persons in a bank, their characters would be a guarantee as much as their property. The paid-up capital of a chartered bank should be lent to Government at a certain interest, to be repaid at par, in order to avoid the consequences of a fluctuation in the stock; and perhaps some regulation might be adopted by which such banks could get back their capital in case of alarm, and when they had paid a certain portion of the demands upon them. The establishment of chartered banks with a limited responsibility of partners, and a paid-up capital, would create a sound system of banking in the course of a few years. It would very much increase the number of respectable persons taking an interest in such institutions, and thus improve their management as well as their credit. The personal exertions of such individuals have great effect in time of alarm and discredit.

Improvements in country banks.

Stuckey, 1,204.

1,205.

1,206.

1,218.

1,220.

Mr. Forster suggests, with reference to the enactment, that the notes of the Bank of England shall be

received in all revenue payments (in consideration of the sum lent by the Bank to Government), that country bankers should have some such privilege. If they were allowed to make a deposit with Government at a certain rate of interest, and, upon the strength of that deposit, to issue notes receivable in revenue payments, upon the production of which notes at the Government office, the banker should be entitled either to withdraw an equivalent amount of his deposit, with interest, or to re-issue his notes so guaranteed, it would produce various beneficial consequences. It would infuse new life into the country-banking business, which is now rather a dying concern; it would elevate it in the scale of respectability, and check the disposition which now prevails upon the part of gentlemen of opulence to retire from the trade altogether. It would, moreover, tend to increase the circulation, which some persons think inadequate at the present moment, and to give the country the benefit of Government responsibility, without the evils of a Government currency. Country bankers should not be compelled to adopt this plan; and the option might even be given them of acting upon it with reference to one part of their circulation, and of refraining from it in regard to another.

Mr. Parry Wilkins laid before the committee a plan of a chartered company with limited responsibility, for the district including Herefordshire, Monmouthshire, and South Wales, the centre of which should be at Brecon—the capital 600,000*l.*, of which half should be paid down; and the establishment to do business only with the notes of the Bank of England. He states

Improvements in country banks.
36 Geo. 3.
c. 96.
Forster.
1,573.

1,576.

Wilkins,
1,804.

that this plan was received favourably by a number of influential gentlemen¹ in that neighbourhood, who would take shares to a large amount, provided the responsibility were limited; but if it were to be unlimited, it would be impossible for him to get partners. He would take deposits at any interest to two and a half per cent, the consequence of which would be, that the deposits now in the branch banks in that neighbourhood, would be immediately withdrawn and placed in the new chartered bank, because the depositors would have quite as much confidence in the new bank as they now have in the branch bank of England, from which they receive no interest. These deposits he would lend to the agriculturists at five pounds per cent upon promissory notes, holding back the two and a half per cent as a sinking fund, to cover any loss that might be sustained in the business of the bank; and he would discount the trade bills of the country to a very large amount. The Branches do not discount bills at a longer date than three months, whereas the iron-trade bills of South Wales are drawn at six months. Such a bank would eventually extinguish all the other concerns in the neighbourhood: it would afford twice or three times the accommodation at least to the neighbourhood which is given by the banks at present established. It would have no occasion for any advances from the Bank of England, as

Improvements in country banks.

Wilkins, 1,381.

1,386.

1,393.

¹ "1,837. Do you think that gentlemen might be induced to embark in such a bank, for the purpose of becoming debtors to the bank themselves? — Some of them might." "1,838. Is it consistent with your knowledge, that when the bank of Messrs. Jones and Walters failed, many of the country gentlemen placed their names down as directors of a similar bank to what you propose, the greater part of whom were debtors to the bank of Walters and Jones? — It would be unfair in me to answer that question."

Improvements in
country
banks.
Wilkins,
1,812.

1,819.

1,846.

1,847.

1,853.

1,863.

its own paid-up capital would command a sufficient supply of notes. Mr. Wilkins calculates, that by means of discounts and loans in that part of the country, he would, as manager of the proposed establishment, be able to share a dividend of ten per cent among the proprietors. The security to the public would be the amount of the paid-up capital, and the company acting exclusively with Bank of England notes, which they would advance upon good security only. A chartered company of the kind here proposed, with limited responsibility, issuing their own paper, would be injurious to the country, by leading to over-trading. A private banker would be in some degree checked in his issues, by their being known only within a limited distance; but no check of that sort would operate with reference to a chartered company with limited responsibility, which manufactured their own paper money. Even a private banker would be much more safe from failure, if he were to use only the paper of the Bank of England; and it would be a very fortunate thing for the country if that were the universal practice.

VII. SECURITY FOR CONDUCT OF COUNTRY BANKS.

Security for
conduct of
country
banks.
Stuckey,
1,033.

1,036.

There is scarcely any security for the proper conduct of a country bank, save in the general feeling of its good management and the property of its partners. But Government might be invested with the power to grant charters with limited liability, and then they might require a paid-up capital and other provisions for the safety of the public. The capital so paid up should be lent to Government, as that of the Bank of England

now is. That would afford a guarantee, not only for the due payment of the notes, but also for the proper conduct of the establishment, as no bank with a paid-up capital would be likely to run any very great risk with the other part of its property. It would not, probably, make over issues of its own paper, which would be calculated to press on the gold in the coffers of the Bank of England. It is not possible for a country banker to make an over-issue for any length of time, without its coming back upon him; certainly he could not do so with safety during a contraction of Bank of England notes. Generally speaking, those banks only have acted improperly which have had little capital to lose. It is true that rich banks also have made a temporary stoppage, from having been erroneously managed. But the misfortune of banking in England has been, that there have been some banks which have failed, and paid very little; and this has imparted to the business a character that excites distrust.

Security for
conduct of
country
banks.
Stuckey,
1,034.

1,037.

1,038.

1,039.

It would be a great advantage to country bankers to know accurately what the state of the circulation of the Bank of England is at all times; and generally they do know it pretty well. But they should be made acquainted with the amount of the country circulation also. There ought to be no difficulty in returning the amount to a certain office, the officer to be under an oath of secrecy if necessary. It is not requisite that the circulation of every individual house should be disclosed;¹ but every quarter, or every half year, the

1,040.

¹ No country banks at present return the *actual* amount of their circulation, those excepted which compound for the stamp. — 1,042-3.

Security for
conduct of
country
banks.

amount of Bank of England circulation — that of country bank circulation — the market price of gold and silver — and the exchanges at Paris and Hamburgh — should be published.

CHAPTER XX.

OPINIONS OF MR. NORMAN AS TO THE PROPRIETY OF MAKING THE NOTES OF THE BANK A LEGAL TENDER IN THE COUNTRY—AS TO THE LIMITATION OF ISSUES TO ONE BANK IN LONDON—THE PUBLICITY OF THE AFFAIRS OF THE BANK—AND THE EXPEDIENCY OF SECURITY BEING GIVEN FOR COUNTRY BANK ISSUES.

I. LEGAL TENDER—LIMITATION OF ISSUES.

WITH reference to the question of legal tender, Mr. Norman is clearly of opinion that the issues of country bankers ought not to be payable in gold at all; they should be payable only in the notes of the Bank of England. As to the privilege which the Bank possesses of being the only issuer of paper money in London, and within sixty-five miles of it, he considers it a privilege of the most important nature, the abolition of which would be highly prejudicial to the country at large. The introduction of competition in the issue of paper money, especially in the capital, where the value of the whole currency, compared with that of other countries, is finally adjusted by the importation or exportation of the precious metals, could not by possibility be any improvement on the present system, and would probably lead to great disasters. Under such an arrangement, the currency, compared with the present state of it,

Legal tender.

Norman,
2,798.Limitation
of issues.
Norman,
2,582.

mitation of
ues.

would be either greater, or less, or the same; if the last, nothing would be gained; if either of the former, the result would be pernicious. The real effect would probably be, that the currency at one time would be unduly extended, and at another unduly contracted; that violent oscillations would take place, with all their attendant evils of fluctuating prices, and that the difficulties of the Bank would by such an arrangement be very greatly increased, and its functions most materially impeded. Within the last ten years, undoubtedly, under the present system great variations have taken place in prices and in money. The currency, it cannot be denied, has been in a very unsatisfactory state during that period. But if the competition in the issue of paper money had been unlimited during that interval, those oscillations would have been still greater, and have produced more injurious effects. They would have nearly destroyed the whole paper credit of the country.

Norman,
2,670.

2,671.

2,583.

Any reduction of the district to which the privilege of the Bank extends would be injurious. The relative amount of its circulation would be greater or less, in proportion to the extent of the district within which it alone can issue notes. The business of the institution can be managed more or less easily, securely, and advantageously, both for the interests of the corporation itself and of the public, in proportion as its circulation forms a larger or smaller part of the whole paper circulation. So far from that circulation being relatively too large at present, it is greatly to be wished that it should be extended. Almost all bankers issue their notes upon securities bearing interest; and when the rate of interest rises, there is always a tendency to

a great increase of issues; that tendency always becomes active; the issues do in fact increase as the rate of interest becomes higher. Now, there is certainly no very close connexion between the amount of circulation which the country requires, and the rate of interest. So far as the country at large is concerned, that mode of issuing paper currency is a vicious principle of action. If there were more than one bank of issue in the capital, there would be a very strong disposition on the part of the rival establishments, acting in competition, to force their notes into circulation; and if at one time, from that cause, the currency were unduly expanded, it would probably be unduly contracted when the recoil took place, for the range of the recoil will almost always be [proportioned to that of the excess.

Limitation of issues.

The introduction of several issuing establishments into the metropolis would be directly detrimental to the interests of the Bank, if they took away from it any portion of its circulation or other business; and if it were at all to continue on the same footing as it is at present, they would greatly increase its responsibility.

Norman,
2,594.

If its proportionate issues were very materially diminished, while it should be saddled with more than a proportionate liability of providing coin for other issuers of paper, even to a greater extent than is imposed upon it at present through the country bankers, it would not probably be worth while for the Bank to continue to carry on business in the way of issue. If there were many issuing firms in London, the uncertainty in which the Bank would be kept as to the demands that might be made upon it for the conversion of its own paper, would

2,603.

2,604.

be so great as materially to diminish any profits which it might have from the issue of notes ; and in that case it would be better for the Bank to confine itself entirely to the business of deposit. The charge upon its circulation amounts to about two per cent ; the profits upon it are not so great as are usually imagined ; they are considerable, certainly, but not large in comparison to those which are derived from its other transactions.

Generally speaking, monopolies are disadvantageous ; in ninety-nine cases out of a hundred they do mischief. But if it be found that in the hundredth case monopoly does not do mischief, in that instance it ought to be maintained. The supply of paper currency to the country is one precise case in which monopoly is not injurious. If, indeed, the State should determine to issue 20,000,000*l.* of State paper, either payable in gold or secured by a deposit of bullion to an equal amount, then the banking trade of the metropolis might be thrown open to competition without inconvenience. There might perhaps be some advantage in having one large body, in times of commercial distress, of very undoubted solidity, whose credit should ride over that of even the best conducted and most wealthy private establishments ; “ but I am hardly able,” adds Mr. Norman, “ to estimate the precise extent of that advantage.”

Under any system of banks, more or less numerous, the financial credit of the country might be endangered by the application of discredit to all paper money whatever. The political discredit which existed for a while in May 1832, was attended with some anxiety on the part of the Bank ; but it must have continued a considerable period beyond the few days to which it was

limited, in order to have placed the Bank in danger. The sacrifices entailed on those desirous of converting their notes into gold, would have increased with the daily reduction in the bullion, while the impulse given to the import of treasure from abroad would have augmented. It is possible, that at a period of long-continued political discredit the Bank's coffers might be exhausted. No one bank—no number of banks—can stand a political discredit, if it be understood that they are to make any profit at all upon their issues. In order to be *perfectly* secure, nothing but bullion notes should be issued, like the receipts of the bank at Hamburgh for the treasure deposited in its vault, which pass as money. Even such notes as these, though they might all be paid, would form no security against political discredit, which might destroy the advantage of a paper currency in the way of convenience, upon whatever basis that currency was founded.

Limitation of
issues.

Norman,
2,678.

2,679.

If so large an amount of bullion as that stated (20,000,000*l.*) were set apart as a provision for notes to that extent, the loss to the country might be estimated by calculating the additional amount (beyond the present proportion) of the bullion so retained. There would be so much new capital in the shape of bullion, which might otherwise be profitably employed. It would not be correct to estimate the annual loss on that capital, at the mere amount of interest which so much money would fetch in the market. The rate at which capital can be borrowed in the market is not the measure of the wealth, which it furnishes to the individual possessing it, or to the community; it is merely the price which people are willing to take for the use of

2,680.

2,681.

limitation of it, with a greater or less degree of risk, and with no
 issues. trouble. The borrower's profit should then be added to
 Norman, it, and the just basis of the calculation would be, the loss
 2,680. of profit on so much capital actually employed in trade,
 2,682. which might probably be seven or eight per cent. It
 would, however, be a question worthy of consideration,
 whether the additional security given to paper credit,
 and the operations of the country generally, by the
 deposit of so much bullion, would not be an advantage
 that ought to be estimated far beyond any loss upon
 the interest, in whatever mode it should be calculated.

Upon this point, of having only one bank of issue,
 Mr. Harman agrees entirely with Mr. Norman. He
 Harman, thinks that the system is very well in that respect, as it
 2,345. now stands. The removal of the limitation of sixty-five
 2,343. miles from London, he would deem an experiment
 2,332. not likely to be advantageous either to the Bank of
 England or the public. He was never favourable even to
 the establishment of joint-stock banks, or branches of
 the Bank of England, in the country. The latter im-
 2,333. pose a great additional responsibility on the directors,
 who had quite enough of it before. The measure will
 2,336. require a great deal of time and experience, and risks
 may be run, before its advantages can be proved.

II. PUBLICITY OF THE AFFAIRS OF THE BANK.

Mr. Norman expresses a very strong opinion in favour
 of the publication of accounts, that is to say, a periodical
 disclosure of all the most important items calculated
 to inform the public of the true situation of the Bank
 of England, the circulation, deposits, and bullion, as
 well as profit and loss. It is possible, he admits, that

Publicity.
 Norman,
 2,694.

2,695.

2,696.

if such a publication had taken place at the close of the year 1825, it might, perhaps, have produced a dangerous effect, especially if publicity had only commenced at that time. Nevertheless, it would be difficult exactly to say what effect would have been produced on the public mind, from a knowledge of the low state of the treasure. Injurious consequences need not necessarily have followed. One great advantage would be likely to ensue from the publication of the Bank accounts, in the gradual growth of a greater degree of information as to the working of the currency altogether. The Bank is now frequently exposed to unjust imputations, in consequence of the ignorance existing in the public mind, as to its duties and mode of action. It would be highly desirable, and indeed necessary, that the amount of the circulation, not only of the Bank of England, but also of the country banks both in England and Scotland, should be fully disclosed. A certain degree of inconvenience might be produced by publication with reference to the Bank, if the state of the bullion were low; but the great mass of the community would soon perceive from such statements, that the solvency of the Bank was indubitable; that it would never be their interest to produce a crisis in its affairs, and that a political discredit must always be disadvantageous to the country at large, and especially to the laborious classes. If such information were diffused through the community, an attempt to produce discredit would be an unpopular act. The Bank cannot even now have a very small amount of treasure without the circumstance being generally known, although the exact amount may not be di-

Publicity.

Norman,
2,699.

2,701.

2,718.

Publicity. vulged ; a question, therefore, may be raised, whether, in such a state of things, the treasure in the hands of the Bank may not be under-estimated by the public rather than over-estimated. The treasure may be run low, without any fault on the part of the directors, as was the case in 1825. The extreme reduction then arose from causes over which the directors had no control. No agency of public opinion can prevent a recurrence of periods of danger, nor would publicity present a remedy for all possible evils in the banking system; but it would be greatly preferable to secrecy. It would expose the directors to criticism; it would have the effect of keeping up a general system of good management, and enforce a due degree of attention to the state of the bullion reserve.

No danger could arise from publication, as far as money speculators are concerned. It would not be in the power of any number of individuals to prevent the Bank from obtaining a supply of gold from abroad, in case, through the publicity of its affairs, they should become acquainted with any occasional reduction in its bullion. The amount of gold circulating in Europe is so large, that it would be impossible to raise the *agio* upon it in the foreign markets beyond a certain point. Hitherto the treasure of the Bank has sometimes unavoidably fallen below the mark at which the directors would wish to maintain it. It would be difficult, perhaps, to conduct an establishment like the Bank without its being subject to fluctuations, now and then, of that description: "But I am not sure," says Mr. Norman, "that, under certain conceivable circumstances, it might not be accomplished." If the new system, how-

ever, were resolved upon, care should be taken to introduce it under circumstances unlikely to lead to any danger. The publication should be, moreover, immediate, not retrospective. The public, when fully informed of the state of the Bank, will always uphold it in a line of action conducive to the general interest; and they cannot fail soon to discover, that under a moderately good management, the stability of the Bank is assured, so long as the Government itself is solvent.

Publicity.

Norman,
2,742.
2,747.

2,750.

It should further be observed, that at particular times a correct knowledge of the actual state of the Bank, and of the rules upon which its operations are conducted, would be very advantageous to mercantile men. In many cases, if they had possessed that information, they could have regulated their speculations with greater certainty. They have been not unfrequently misled by erroneous statements with reference to the Bank, which an authorised publication would have corrected, if it had been in existence. Under the present system of secrecy, moreover, it is an important consideration, that a Bank director is often unable to take the advice of persons not belonging to his own body (on whose judgment he may otherwise place great reliance), from his inability to lay before those persons the facts of the case on which his opinion is to be formed.

2,772.

2,773.

2,776.

2,793.

The principle of publicity should also be extended to all issuers of paper whatever, whether private bankers or joint-stock banking companies; and if it were not so extended, much of the benefit derivable from it would be lost. With respect to private bankers, however, it ought not to go beyond a useful limit. There

2,796.

Publicity. is a point at which scrutiny into the affairs of individuals carrying on banking business might be extremely inconvenient, and where the particular inconvenience to themselves, and to those connected with them, might overbear the advantage of the publication of their transactions. It is eminently desirable that the amount of their issues should be known, and that periodically, though not perhaps so often as once a week.

2,801.

III. SECURITY FOR COUNTRY-BANK ISSUES.

Security. Mr. Harman is of opinion, that the country private bankers, although they have fallen occasionally into errors of management, have in the main transacted their business with benefit to the public, and reputation to themselves; and that the country business should be left to them to the exclusion of joint-stock companies and branches of the Bank, but under such new regulations as might be deemed expedient. Among these regulations, security for their issues would be, according to Mr. Norman, absolutely indispensable. That security should be placed in the hands of the state, in some way or other, so as that the holders of paper issued by the persons who give it never could, under any circumstances, suffer from their insolvency. The rule should be general, and no amount of capital paid up should be considered sufficient to exempt any particular body from the obligation. The details of a plan for effecting this object would undoubtedly present considerable, though not, perhaps, altogether insuperable difficulties. For instance, the necessity of providing such security would prevent the country banks from using an equivalent part of their capital, the result of their issues, for those

Harman,
2,342.

Norman,
2,612.

2,613.

2,616.

2,614.

purposes of circulation and facilitation of business in their neighbourhood upon which their utility necessarily depends. Their profits would be thereby *pro tanto* reduced. Again, if all banks were compelled to hold public securities, exchequer bills, for example, by way of guarantee for their circulation, then in a case of a general discredit of their paper, there would probably be a general sale of exchequer bills on the part of every bank throughout the country; the consequence of which would be a diminution, instead of an increase, of the real security to the public. This, indeed, is an extreme case, the occurrence of which is not probable; for if security were universally given, it is not likely that a panic would arise involving a discredit of country-bank paper.

Security.

Norman,
2,618.

2,623.

The legislature should deal with these difficulties; it should, however, interfere only with reference to the *circulation* of banks. No plan can be devised by which the public can be secured against all loss whatever in their general transactions with such establishments. There is a strong distinction between the circulation of a bank and its other liabilities; the latter are strictly voluntary on the part of the public; but private persons have frequently no option as to the former. If security be given for issue, of course the customers of the banks that give it will estimate their solidity in all other respects as they may think fit, and the public at large have nothing more to do with the matter. If the country bankers should refuse to issue notes under the condition of lodging securities, or decline to act with Bank of England paper, no doubt parties would be found who would supply the local currency on satisfactory terms.

2,587.

2,634.

2,641.

CHAPTER XXI.

OPINIONS OF MR. CARR GLYN WITH REFERENCE TO THE EXPEDIENCY OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER IN THE COUNTRY—OF HAVING ONLY ONE BANK OF ISSUE IN LONDON—OF PUBLICITY OF THE BANK ACCOUNTS—OF EXACTING SECURITY FOR THEIR ISSUES FROM COUNTRY BANKERS—AND OF ALTERING THE TIME FOR THE PAYMENT OF DIVIDENDS ON A CERTAIN PORTION OF THE PUBLIC STOCKS.

I. LEGAL TENDER.

Legal tender. Mr. GLYN states, that he has discussed with several
Glyn,
3,000 to 3,107. country bankers the question of making Bank of England paper a legal tender by them, in exchange for their own notes, during a period of political discredit, and that there is a feeling in the minds of some of those gentlemen that it would be a very beneficial measure. In that opinion he also concurs. At such a time it would be an advantage to have the whole of the bullion concentrated in one particular place, to meet any demand that might arise against it, instead of having it dispersed through the different branches and country banks. If the public then pressed in the country for gold, the payment in Bank of England notes would tend to check the panic, by throwing a difficulty in their way, inasmuch as they would be obliged to send the notes to

London for the purpose of being converted. How far that difficulty might operate as an efficient check, would depend upon the degree of excitement going on at the time. It has been said that in remote parts of the country, a greater confidence is reposed in the country bank paper than in that of the Bank of England, on account of the former being better known in those districts, and furnishing a greater security from risk of forgery. But this feeling does not prevail to any considerable extent. In ordinary times the country banker can obtain gold from the branch banks to any amount which he may require; but in a season of difficulty it would not perhaps be prudent for him to rely upon that resource. Indeed, in the case supposed, it would be expedient that the notes even of the branches should be payable only in London. There certainly would be a difficulty in making the Bank of England notes a legal tender on the part of country bankers, without applying the same principle to all other transactions, as a person who ought to have money at command at his banker's might thus be placed in a situation, in which it would be impossible for him to pay his debts. It would therefore be necessary that, if the notes of the Bank were made a legal tender from the country banker, they should be invested with the same character as to all other persons, the Bank alone excepted.

II. ONE BANK OF ISSUE.

According to Mr. Carr Glyn's opinion, the exclusive privileges of the Bank of England are decidedly advantageous to the private bankers in London. The existence

Legal tender

One bank of
issue.
Glyn, 2,827.
2,828.

One bank of
issue.

Glyn, 2,829.

2,857.

3,000.

2,830.

of more than one bank of issue in the capital would expose the commercial world to great fluctuations, and the bankers in particular to very great inconvenience in the details of their business. If, for instance, there were three or four banks of issue in existence at the same time, carrying on business in London, it would be necessary for the private banker to retain in reserve notes belonging to each of these banks. The business of bankers is of such a nature that they cannot refuse any facility that is required, and this would be one of those which competition would force upon them. Besides, if there were several large banking companies in London, with a very numerous body of influential proprietors, it naturally would be the object of those proprietors to make the circulation of the notes of their own particular banks as general as possible; and that inducement would make them desirous, when they had a demand upon a private banker, to force him by these means into the necessity of using or locking up their notes. If any one presenting a check at the counter, under such a state of things, were to demand payment in any note he might choose, he must be paid either in that note or in gold. The consequence would be, that the London bankers would then be obliged to keep by them probably three or four times the amount of gold which they retain at present. The establishment of several banks of issue would moreover diminish the deposits of the private bankers considerably, inasmuch as the proprietors of shares in such institutions would naturally transfer to them deposits which are at present in the custody of the private bankers. Thus the latter would be deprived, in a great measure, of their power

of supplying a portion of the traders of London, particularly the second class, with the accommodation now afforded them, without which they could not carry on their business, and which they would not be likely to obtain from a public body of directors. Such a body would not have those means of inquiring into the resources of the middling classes of traders which the private bankers possess, and which enable them to judge of the propriety of making the advances that are solicited. The traders would not have the same access to a board of directors which they have to private establishments.

One bank of issue.

There is, however, a great distinction between the business of London and the country. In a country town, with a limited population, directors would be as well able to judge of their customers as a private banker could be. But in London it would be almost impossible for officers, who would be from time to time coming in and going out by rotation, to make themselves sufficiently acquainted with the character and circumstances of individuals. Even in the country, where all persons are so well known to each other, a director will not probably take the same trouble for his proprietors which a private banker would take for himself. It is the duty of a private banker to become acquainted with his customers; his business depends upon it; his advances must be governed by his knowledge. If the directors of a joint-stock bank could be persuaded to feel the same interest for their proprietors which a private banker feels for himself, then, perhaps, much of the difficulty might be removed. It must be admitted, that the joint-stock bank at Manchester have

Glyn,
3,109 to 3,122.

One bank of
issue.

a very extensive and increasing business, arising in a great measure from the liberal accommodation they give to the public; their affairs are carried on under excellent management. They have a very large list of subscribers, including some of the principal people in the town and neighbourhood; and they have, in consequence, interfered with the custom of the private bankers in that district. If it should be asked, why the country bankers should be subject to that interference, and the metropolitan bankers be preserved from it, the answer is, that the business in the Capital is now well done, and perhaps better done than it could be under any other system. If that system, which is now and has been for many years in practice in London, be suited to its trade, and one under which its mercantile body has flourished, change would not be desirable.

Glyn, 2,956.

With regard to the country business, there are two points which might be modified: joint-stock banks might be safely permitted to make their notes or bills under 50*l.* payable in London; and the line of sixty-five miles drawn round London, preventing the establishment of any joint-stock banks within that circle, might be reduced to twenty or twenty-five miles, without interfering unnecessarily with the circulation of the Bank of England, or with other establishments.

If several banks of issue were allowed in London, the
2,839. competition between them would affect the value of the
circulating medium, by exposing it to very great fluctua-
2,841. tions. The natural inclination of all banking com-
panies, who are seeking profit for their proprietors,
2,845. must be to extend their issues. If there were three or
four large banks of issue in London, the scramble for

profit between them would prevent that due regulation of their paper which is essential to the safety of the circulation. London must always be considered as the great centre, to which all the money transactions of the empire point—as the spot upon which all the foreign exchanges operate, and where the first variations of expansion or contraction must always take place. The existence of several banks of issue in the metropolis would, therefore, be a very different thing from the establishment of so many similar institutions at Manchester. The Bank of England as a bank of issue, in connexion with the private bankers as banks of supply, forms a system which could not easily be improved.

One bank of issue.

Glyn, 2,846.

2,956.

The privileges which the Bank possesses, of having its notes received in revenue, and of paying the dividends on the public stocks, would, if those privileges were continued, always give it a preponderance over other banks of issue, should such establishments be sanctioned in the metropolis. Its notes would still necessarily continue a principal part of the circulation. The control which it would thus be enabled to exercise over other banks might be used as a salutary check upon them; but it would not altogether prevent undue fluctuations. For instance, suppose that several banks of issue existed in London whose total circulation amounted to 20,000,000*l.*; that they had locked up amongst them 4,000,000*l.* in gold, as a provision against that circulation, and that, from foreign loans or large imports, the exchanges, as sometimes may happen, take an unfavourable turn, there would be, of course, an immediate demand for gold for exportation; the notes of the joint-stock banks would be returned upon their

3,007 to 3,016.

One bank of
issue.

hands for coin; and each having a smaller proportion in gold by it than was necessary, would immediately contract its issues, and call in its loans, for the purpose of possessing itself of the notes of other banks, in order to obtain from them that supply of gold which otherwise it would not have to meet its own engagements. This operation, extending through all the banks, would limit, if not stop up, accommodation to their customers, who would feel the consequences of such fluctuations in the currency; and it would not be in the power of the Bank of England, even if it were the preponderating establishment, to prevent those fluctuations from taking place.

III. PUBLICITY OF ACCOUNTS.

Publicity.
Glyn, 2,963.

2,964.

2,965.

2,966.

2,974.

A check might be put upon the absolute discretion of the directors of the Bank of England by the publication of their accounts; that is to say, the accounts of profit and loss, if they could be disconnected from those relating to the bullion. The publication of the amount of the bullion is a subject upon which Mr. Glyn entertains considerable apprehension. If the statement of the bullion in the hands of the Bank were confined to the six months previous to the period of publication, it might diminish the danger; but even with that precaution, a knowledge of the fact would probably have a tendency to create speculation. As to any other species of control over the directors, it would be impossible to carry it into effect, without such a daily interference with their transactions as would render it almost impracticable for them to carry on their business.

IV. SECURITY FROM COUNTRY BANKERS.

If security were exacted from country bankers issuing paper, there is no doubt that they would be perfectly able to give it; but such a system would be attended with great inconvenience. It would not be right to call on any man to provide for payment of his notes in two, or rather in three ways. He would first have to provide for them at home; next, with his London agent, if they be payable there; and thirdly, in the security given to Government; thereby losing so much of his present profits, that he would have scarcely any inducement to follow his business. It would be much preferable to the other alternative, if the Government would induce the country bankers to act with the Bank of England notes, giving security for them to the branch bank. In that case they would at once get rid of two of the liabilities mentioned: by giving security to the branch, they would avoid the necessity of provision at home and in London. As a matter of justice, there is no good reason why a country banker should give security for his notes rather than for his deposits.

Security.
Glyn,
3,151 to 3,180.

V. ALTERATION OF TIME FOR PAYMENT OF
DIVIDENDS.

Great practical convenience would arise from an arrangement, by which a *portion* of the public stocks should have the dividends upon them payable at other periods intermediate between the termination of each quarter. Before the Bank had adopted the system of equalising the currency¹ upon which they have recently

Dividends.
Glyn,
2,986 to 2,991.

Dividends. acted, the London bankers were very frequently obliged, before the quarter-day, to make sacrifices in order to raise money. That necessity has been since done away with, and the bankers are now enabled to be as liberal a fortnight before quarter-day as they are at any other time. The regulation as it stands at present is highly beneficial to the public, and the principle of it would be extended by the measure above mentioned.

CHAPTER XXII.

OPINIONS OF MR. LOYD WITH REFERENCE TO THE PROPOSED LIMITATION OF THE PAPER CURRENCY OF THE KINGDOM TO NOTES OF THE BANK OF ENGLAND—THE EXPEDIENCY OF HAVING ONLY ONE BANK OF ISSUE IN LONDON—OF OBTAINING SECURITY FOR THE CONDUCT OF THE BANK—OF PUBLICITY OF ACCOUNTS—AND OF REPEALING THE USURY LAWS.

I. LIMITATION OF THE PAPER CURRENCY TO NOTES OF THE BANK OF ENGLAND.

BANK of England notes and gold form almost the whole circulation of Manchester; but that is no reason why they should constitute the entire currency of the kingdom. Many persons think that if the local paper of the country banks, particularly in agricultural districts, were done away, the country bankers would not carry on their business any longer—a result that would be a severe injury to some parts of England and Wales. In manufacturing towns, the circulation of the Bank, added to gold, might be sufficient for all purposes; but a very great distinction should be taken in that respect between the trading and the agricultural districts.

If the question were, whether, upon a general abstract principle, it would be the best system of currency to have only one bank of issue throughout the country, it could be answered only in the affirmative. But the

Limitation of
currency.
Lloyd,
3,371 to 3,374.

3,455.

- Limitation of currency. expediency of now attempting to introduce such a change is a very serious consideration. Looking to the circumstances and habits already existing, the best course would perhaps be to combine a plan of that kind, as far as possible, with the conflicting interests of the private bankers. Those interests would undoubtedly be injured even by the establishment in London of a bank, with large capital, allowed to issue notes not in London, but throughout the country by branches. Any change that tends to increase the number of issuers is likely to lead to inconvenience and difficulty. The present system of country banking is certainly not quite perfect, though it might not be easy to suggest any amendment.
- Loyd, 3,456. 3,448. There are country banks in operation which have not sufficient capital, and some of these might possibly be extinguished by the rivalry of such an establishment as that just alluded to. But it would still leave many issuers behind, and those most probably of the least responsible classes.
- 3,450. 3,452. 3,453. As to the district round London within which the Bank of England have now the privilege of preventing any bank, consisting of more than six partners, from issuing notes, the particular extent of it is not a matter of much importance either to the Bank or the public.

II. EXPEDIENCY OF HAVING ONLY ONE BANK OF ISSUE IN LONDON.

One bank of issue in London.
Loyd,
3,244 to 3,307.

Mr. Loyd¹ thinks that the effects of the exclusive privilege of the Bank of England, of being the sole

¹ The opinions of Sir Coutts Trotter are so much in accordance with those of Mr. Carr Glyn, that it would be superfluous to repeat them.

issuer in the metropolis, are more advantageous than a multiplied number of issuers would be, with reference to the interests not only of the private bankers, but of the public generally. A competition between several banks of issue in London would interfere very materially with the business of the private bankers. London being the centre in which all the money transactions of England are ultimately settled, it would be absolutely necessary that there should be one circulation, in which all such transactions throughout the country might be adjusted. If there were more than one circulating medium in London, there would, of course, be differences of opinion as to the solidity of the different issues, and different degrees of partiality towards the rival establishments, which would create great confusion. If parties in the country should write to their agents in London to send them money, those agents would not know in what notes to send it, unless they had standing instructions to remit in the issues of particular banks. The same thing would happen, in all probability, with the London customers. One person would refuse to take payment except in the notes of a certain company, another would require those of a different company, which would create interminable perplexity. In addition to this, it is apprehended that any adjustment of their transactions by the different bankers in London among themselves, would be almost impracticable, unless they agreed upon some one paper in which it should be effected. If that were the case, the profits of issue, likely to be divided amongst the other concerns, would not be sufficient to enable them to carry it on.

One bank of
issue in Lon-
don.

If, indeed, there were no notes circulated in London

One bank of
issue in Lon-
don.

but notes made receivable in payment of the revenue, in virtue of an arrangement with each of the joint-stock banks similar to that which now exists with the Bank of England ; or rather, if the different currencies of London (supposing several banks of issue to be in operation) were so arranged, that there was the same degree of confidence in them throughout the whole country, and there was no partiality in any class of the community to any one establishment, then many of the inconveniences of detail would be removed. It is of course presumed, that in that case the Government would take such securities for itself as would place the solidity of the banks beyond all question. The whole of the security should not, however, be appropriated to the payment of the notes of the different establishments. Such an arrangement as that, by leaving the depositors unprotected, would totally destroy the only consideration favourable to a joint-stock bank, namely, extended security for those who intrust their money to its custody.

Besides causing fluctuations in the currency, competition amongst different banks of issue in London would oblige them to reserve a greater quantity of gold, in order to manage their issues, than would be required under the present system, to meet the same amount of circulation. The greater the quantity of gold, of course the greater would be the means of encountering any discredit of paper. But that advantage would, upon the supposition, be purchased by the partial sacrifice of the benefit which a paper currency is intended to produce, viz. the transference of capital from the unproductive state of bullion to a productive state. London banks consisting of less than six partners might now issue

notes if they pleased ; but they would not find it their advantage to do so. The same reasons that operate upon those bankers would probably restrain joint-stock companies, in London, from issuing notes after they had acquired a little experience.

One bank of
issue in Lon-
don.

The establishment of joint-stock banks of mere deposit in the metropolis would not produce the inconveniences attached to banks of issue ; but they would not be found to transact the business of the London trade so well as the private banks. They would probably diminish the number of the private banks considerably ; and the important question would be, whether the diminution would be produced by the destruction of the weaker class of the London houses, leaving the more responsible in full action ; or, whether it would drive out of the field the more responsible, and leave the competition to be carried on between the joint-stock banks and the less opulent private bankers ? The probability is, that it would produce the latter result, and for these reasons : it would of course lessen the satisfaction with which such bankers have hitherto carried on their concerns ; they would not like to embark in a contest against active rivalry, and those who carry on their business from an attachment to old habits and feelings of that description, and who, from their circumstances, are independent of the profits of trade, would be more likely to retire than those parties who must persist in the same line in order to secure their maintenance. A similar effect must follow from the establishment of joint-stock banks in the country, although it would seem, that if they persevere in the course which they have already adopted, of re-

ne bank of
sue in Lon-
on.

discounting in the London market the bills which they had previously discounted for their customers, it would shew that they are not succeeding in attracting deposits ; that they are obliged, in fact, to trade in some measure upon London capital, and to avail themselves of a resource which would be repudiated by country bankers of first-rate character and conduct.

The advantage which joint-stock banks can acquire over private bankers, depends upon the amount of the capital of the former compared with that of the latter. On first setting out, the joint-stock establishments, by the extensive distribution of their shares, acquire an artificial appearance of prosperity, which, when their adaptation to public convenience comes fairly to be tried, they will not, in all probability, be found to retain. They are deficient in every thing requisite for the conduct of banking business, except extended responsibility. That business requires persons peculiarly attentive to all its details ; constantly, daily, and hourly watchful of every transaction, much more so than mercantile affairs. It also demands prompt decisions upon circumstances as they arise, which sometimes will not admit of delay for consultation, and must be treated with discretion. Joint-stock banks being of course obliged to act through agents, and not by a principal, and therefore under the restraint of general rules, cannot be guided by a nice reference to degrees of difference in the character or responsibility of parties ; nor can they undertake to regulate the assistance to be granted to concerns under temporary embarrassment, by an accurate acquaintance with the circumstances, favourable or unfavourable, of each case, or to pledge

themselves to the degree of secrecy which is absolutely indispensable under such circumstances.

One bank
of issue in
London.

III. SECURITY FOR THE CONDUCT OF THE BANK.

If the Bank are to be the exclusive paper issuers in the country, it is essentially requisite that the public should have the best security they can obtain for the management of the currency. Commissioners might be elected from the general body of the bankers and merchants, and also a person appointed by Government, to control the operations of the Bank. But it would be difficult to say how such a plan might work; or whether the circulation would be improved by giving the Government a greater control over the Bank than it already possesses. The present system, as it has been lately administered, particularly within the last five or six years, has certainly afforded due protection to the public interest; and it approaches so near to perfection, that any great change in it ought not to be hazarded for the purpose of doubtful improvement.

Security for
conduct of
Bank.
Loyd, 3,396.

3,397.

IV. PUBLICITY OF ACCOUNTS.

Supposing it to be decided that there should be only one bank of issue in London, and that bank to be the Bank of England, the first great alteration in their system, which Mr. Loyd conceives absolutely requisite, is a full and regular publication of their accounts, including the amount of the bullion. It would be much less dangerous to them to publish the amount of bullion in their hands than to suppress it. There may undoubtedly be states of the bullion of the Bank, in which, if exact knowledge respecting it came out in an

Publicity of
accounts.
Loyd,
3,382 to 3,387.

Publicity of
accounts.

insulated manner, in the midst of previous ignorance, it might be followed by very serious consequences. But if information on that subject were systematically communicated, and the public were taught to reason upon its effects, as they would be through the discussions that would take place in the public journals and by other means, more confidence would be reposed in the Bank (always assuming the Bank to be so conducted as to deserve confidence) than there can be whilst that information is withheld. A great deal of unnecessary alarm often exists in the public mind about the Bank, which would no longer be felt if the state of the bullion were accurately known to the world. Such a publication would probably prevent the amount of gold in the Bank from ever falling so low as to endanger that establishment; and the obligation of frequently, at recurring periods, disclosing the course of their business, would make the Bank more watchful in keeping their affairs in a proper condition, and more cautious as to entering into any transactions of a doubtful nature.

Loyd,
3,408 to 3,420.

The very impressions that exist upon the public mind with respect to the danger of a temporary deficiency of the amount of treasure, are founded upon the want of an adequate understanding of the subject. If they were satisfied, by a continual repetition of evidence presented to them, that the Bank was in an unquestionably solvent condition, and its affairs wisely managed, then even an acknowledgment of the fact, that the supply of treasure at the moment was not adequate, would not produce any serious results. If, for instance, a very unusual and unexpected demand took place for the conversion of local country notes into gold, and

the bullion in the Bank became so far exhausted as that they were not able to meet that demand, the immediate effect of such an occurrence would not be so dangerous under the circumstances of a systematic publication of their accounts, and a general conviction that the concern was really solvent and well conducted, as it would be under the present practice, when, from the suppression of knowledge, suspicion is engendered, which always exaggerates the evil.

Publicity of
accounts.

If such a system of publication and discussion had existed in the year 1825,¹ it would have tended to abate the alarm of the country at the close of that year,

¹ It is right that the reader should be apprised of the view Mr. Loyd takes of the danger which existed at that period.

“3,462. You are probably aware that it was stated, from high authority, in 1825, that we were within a very few hours of barter, meaning that we were within a very few hours of a situation in which there should be no coin and no acceptable paper; do you conceive that representation to have been correct? — I think there were plausible grounds for stating that we were in danger of approaching to something that might resemble that state for a short period.

“3,463. Do you conceive that we were near a recurrence of what happened in 1797, — the necessity of stopping issues of coin for a time? — We were certainly within great danger of the Bank not being able to issue any more coin at the moment.

“3,464. Would not such an occurrence have been productive of very great inconvenience both to the public and the state? — It would have been productive of great temporary inconvenience; but I think the inconvenience would have been very transient.

“3,465. But you think it would have been an inconvenience quite unaccompanied by any doubt of the solvency of the Bank itself? — I think the actual announcement that the gold was positively exhausted, would probably have produced some alarm about the Bank itself.

“3,466. Do you conceive that any part of the mischief was owing to the conduct of the Bank in the year 1825? — I think a good deal of the mischief was originally attributable to errors on the part of the Government and of the Bank.” “I mean,” adds Mr. Loyd, in answer to another question (3,471), “that the previous state of things, the general excitement and enterprise, and the unguarded condition in which both mercantile and banking concerns were found, had been in a great degree caused by imprudent transactions on the part of the Bank, urged principally by the Government. I allude in a great measure to the increase of issues for instance, the purchase of the dead weight, advances upon mortgage, and other similar transactions.”

Publicity of
accounts.

when it became notorious that the treasure in the Bank was nearly drained. The discussion here alluded to would, of course, take place partly through the medium of the public journals; and those journals might not always agree in taking sound and accurate views of the affairs of the Bank. But that would be of minor consequence, as, whatever opinions the journals may advance, discussion upon any doubtful point is the most likely way to arrive at a correct conclusion. If an erroneous impression existed that the paper money was insecure, that impression would be removed by discussion; and if the impression was not erroneous, discussion would be the best means of ascertaining the true remedy for so great an evil, and of enforcing its adoption.

Loyd, 3,440.

Again, in the month of May 1832 there was a very considerable demand upon the Bank for gold, and the sum remaining, when the drain ceased, was greatly inadequate to that which they generally hold in reserve. If that fact had then suddenly come out, as a ray of light through a mass of darkness, it might possibly have produced alarm. But if it had been a fact following a long series of information, to the course of which information the public had been accustomed, it would not have attracted much notice.

3,421.

The just feeling of confidence in the Bank reposes upon the extent of their *capital*, rather than the amount of their actual *treasure*. The extent of that capital as compared with the engagements of the Bank, may be easily known from documents already laid before the public; but they have no detailed accurate knowledge on the subject. The impression amongst persons in the monied world is, that the Bank are perfectly sol-

vent; but doubt upon that point exists through a much more extensive class of the community, founded upon the want of sufficient information. Those who entertain such a doubt are quite wrong, but their error arises from their ignorance, which ought to be removed. If the necessary degree of knowledge with reference to the affairs of the Bank were unreservedly given to the public, and associated with their habits of thinking, then any temporary circumstance that should derange the supply of gold would be productive of no injurious alarm. The more open and candid the publication, the more extensively will it spread satisfaction where satisfaction ought to exist.

Publicity of
accounts.

V. THE USURY LAWS.

The usury laws are inconsistent with sound reason; they interfere with the power of obtaining the value for money which it would otherwise bear, and therefore interrupt the free course of transactions. When the general value of money is above five per cent, they compel the Bank to resort to the refusal of discounts. Not being able legally to raise the rate of interest above five per cent, they cannot contract their issue through that source, except by actually refusing discounts; otherwise the rate might be continually increased, and thus the contraction would be produced by the more natural process. The repeal of these laws, so far as they relate to bills of short date, might be partially beneficial. Such a measure as that would, however, be an imperfect one, and would by no means answer all the purposes either of banks of issue or of the community at large. •

Usury laws.
Loyd, 3,472.

CHAPTER XXIII.

OPINIONS OF MR. GURNEY WITH REFERENCE TO THE PROJECTS OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER IN THE COUNTRY—OF HAVING ONLY ONE BANK OF ISSUE IN THE METROPOLIS—OF OBTAINING SECURITY FOR THE CONDUCT OF THE BANK, AND OF PUBLICITY OF ITS ACCOUNTS. HIS OBJECTIONS TO THE ESTABLISHMENT OF JOINT-STOCK BANKS, AND BRANCHES OF THE BANK OF ENGLAND.

I. LEGAL TENDER.

Legal tender. It would be a beneficial measure if the country
Gurney,
 3,787 to 3,796. bankers were permitted to pay, not only their own notes, but all other demands upon them, in Bank of England paper. They can hardly say, "This is a demand of one nature, I will pay it in coin; this is a demand of another nature, and I will pay it in notes." No disadvantage could arise from such an arrangement; it would be just, because it would be paying the individual in the money which he has paid the banker; and, instead of creating any suspicion against the capability of the Bank of England to pay in gold, it would rather produce the contrary effect.

II. ONE BANK OF ISSUE IN LONDON.

One bank of issue. The establishment of other banks of issue in the
Gurney,
 3,725. metropolis besides the Bank of England, would not be

advantageous to the public. The notes of that institution, founded as they are, furnish the best circulating medium that can be obtained. Any admixture would be injurious. The present system works exceedingly well, and it ought not to be endangered by putting a variety of notes in competition with each other in the city of London. If there were many banks of issue in the capital, the effect of any one of them falling short in payments of cash would have an immediate effect of increasing the pressure upon all. Analogous cases have sometimes occurred ; for example, there is nothing that will try one bank in a country town so much as the stoppage of another. The system altogether on which banking is carried on in the metropolis, including the operations of the Bank of England, is so excellent in itself, so well conducted, and so beneficial to the community, that no alteration in it could be otherwise than highly impolitic. As to the Bank's exclusive privileges, they might, perhaps, be relaxed in some instances. The limit of sixty-five miles, within which banks of issue with more than six partners are prohibited, might be lessened twenty-five miles ; and joint-stock banks might be enabled to make their notes payable in London, without any detriment to the Bank of England.

One bank of
issue.
Gurney,
3,726.

3,727.

3,751.

3,730.

3,731.

3,734.

III. CONTROL OVER THE BANK.

A reasonable and proper interference with the management of the Bank on the part of Government would be highly desirable ; but it should be of a limited character. Instances of interference have occurred on former occasions which have been injurious

Control over
the Bank.
Gurney,
3,758.

Control over
the Bank.

to the country, and it ought not to be in the power of Government to repeat them. With reference to the principal object which would be sought in establishing any system of control over the Bank, namely, the prevention of fluctuation in the currency, it is extremely doubtful whether any kind of control would be efficient for that purpose. These fluctuations have, indeed, been sometimes attributable partly to the management of the Bank—as, for instance, when they have taken steps for the specific object of increasing the amount of their circulation, by advances on mortgage, by the purchase of exchequer-bills, and by opening their doors out of the regular course for mercantile discounts. But fluctuations may and do also arise from causes which are beyond the control of the Bank; and even if it were possible to put a stop to them, it seems scarcely desirable that forcible measures should be resorted to for that purpose. Fluctuations, though injurious to some, are by no means disadvantageous, at all times, to all persons engaged in commercial transactions. When there is a high state of circulation, it has, perhaps, a tendency to lead people, especially incautious people, somewhat out of their depths, but less so than is generally presumed to be the case.

Gurney,
3,490 to 3,509.

It would be very desirable that over-issues of the Bank should be prevented; but no other check can be adopted with safety for the purpose of controlling those issues, excepting that which arises naturally from their paper being always convertible into gold. It sometimes happens that a given amount of circulation will create a feeling of abundance in the money-market, and yet the same amount will, in another state of things, excite

a very different impression. Hence it would seem to be quite impracticable to fix what should be the right amount on all occasions. Little aid can be derived from the foreign exchanges for the regulation of the amount of paper required for the currency under ordinary circumstances, because it frequently happens that, with an adverse state of the exchanges, there may be such an extent of transactions in the country and in the metropolis, that the exchanges, if allowed to have full operation, would tend seriously to cramp the money-market, and injure the community. In fact, no system of currency can be established that will prevent fluctuations; they are in the very nature of things. A state of increasing prices has a tendency to increase the amount of circulation; a decrease in prices has the contrary effect; and no artificial machinery can prevent these consequences from being produced by their corresponding causes.

Control over
the Bank.

IV. PUBLICITY OF ACCOUNTS.

An occasional publication of the circulation of the Bank would do no harm to that establishment, and would be advantageous to some persons, especially to all money-dealers, to whom it would be an indication for the transaction of their business. But a disclosure of the amount of the bullion would be very injurious. Credit is a ticklish thing in its nature, and is by no means improved or protected by exposure. During favourable times there would, of course, be no danger; but during times of difficulty, the notoriety of decreasing stocks of bullion would create alarm, and aggravate the difficulties of the Bank. No dependence can be placed

Publicity.
Gurney,
3,682 to 3,724.

Publicity. upon any supposed increase of knowledge among the people on the subject of money. It would afford no security whatever against that capricious disposition on the part of the public, by which runs on the banks are generally distinguished. Many of those who even profess to understand the subject of currency, are exceedingly ignorant of it. The concealment of the circumstances of the Bank has never led to false impressions out of doors as to its conduct; the knowledge, or rather the belief, which the public now have as to what is going forward in the Bank, attracts as much confidence as is necessary towards that establishment. As to the country bankers, they would have no objection, probably, to the publication of the amount of their circulation; but it would be of very little consequence in any point of view.

V. OBJECTIONS TO JOINT-STOCK BANKS.

Objections to
Joint-Stock
Banks.
Gurney,
3,735 to 3,744.

It is admitted that many valuable institutions are in existence under the denomination of Joint-Stock Banks, but it does not seem probable that they can transact banking business so well as private establishments. Country private banks have undoubtedly often failed; but joint-stock banks furnish no peculiar protection against loss. The public become shareholders, and any loss which the institution makes falls immediately upon their shoulders, without the intervention of the fortunes of individuals, as in private banks. The joint-stock system is one under which losses are likely to accrue: injury will arise from trafficking in shares; persons become partners who are incompetent in respect of property, and very many take shares who are ignorant of

the responsibility which they incur. There is no doubt that the public will suffer more under this system than they ever have done under private banks. Such institutions will be founded, and many of them may continue, because it is so much to the interest of the agents to maintain them ; but it will not be advantageous to partners to engage in those companies generally, some very few excepted. They are more likely to be great in their results in the manufacturing than the agricultural districts ; but whether those results will be always upon a favourable side, time only can shew. There is no reason why any distinction should be made between those institutions and private banks, as to the responsibility of all the partners ; that responsibility should be limited only by the extent of their fortunes.

Objections to
Joint-Stock
Banks.

With respect to the allegation, that joint-stock banks re-discount their bills in London, there is a great variety of practice on that point, partaking of the character of the banking business in the districts in which they exist. Some of them have much surplus cash ; others, under equally good management, find it to answer their purpose to take advantage of the low rate of interest in London. Nor is it unusual for private bankers of first-rate credit to re-discount bills in London which they have already discounted in the country. It is the common practice of some of the most wealthy houses in Great Britain.

VI. OBJECTIONS TO BRANCH BANKS.

No advantage has arisen from the establishment of Branch Banks of England in the country. They have given no facility to the public which did not exist before.

Objections
to Branch
Banks.
Gurney,
3,766 to 3,786.

Objections
to Branch
Banks.

Money could have been remitted, in the course of post, from one town to any other town in the kingdom by the resident bankers, before the branches were ever thought of. For many years past, the local bankers have been mutual agents throughout the whole country. The branches have lowered the profits of banking, and so far they have conferred a benefit on traders in some districts, but they have been wholly inoperative in others; they have also reduced the rate of interest unreasonably and incorrectly in some places, thus giving those places an advantage even over the metropolis. By lowering the rate of interest to the manufacturer, they have compelled the private banker to diminish the interest which he formerly allowed upon deposits; and this has a very injurious effect upon a considerable class of persons. It is much more detrimental to an individual of that class to have the interest upon his deposit—the accumulation of his labour—decreased, than it would be to the merchant to pay a little more discount upon his bill transactions. It is altogether a wrong proceeding. It may be proper to add, that, according to Mr. Gurney's statement, his business as a bill-broker has not been injured by the establishment of the branches; on the contrary, many manufacturers and merchants who formerly sent their bills to a banker in town for discount, now send them to his house for that purpose, and the proceeds are remitted through the branches.

CHAPTER XXIV.

OPINIONS OF MR. TOOKE WITH REFERENCE TO THE PROJECTS OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER IN THE COUNTRY—OF HAVING ONLY ONE BANK OF ISSUE IN THE METROPOLIS—OF OBTAINING SECURITY FOR THE CONDUCT OF THE BANK—AND OF PUBLICITY OF ACCOUNTS—HIS VIEWS WITH RESPECT TO JOINT-STOCK BANKS, BRANCH BANKS, ONE-POUND NOTES, THE PAYMENT OF THE DIVIDENDS, AND A STATE PAPER-CURRENCY.

I. LEGAL TENDER.

THE proposed plan of making country bank-notes payable not in specie, but in Bank of England paper, would be attended with convenience; and although there might be objections to it, they do not appear to be of sufficient weight to stand against the consideration of the advantages which would arise from such an arrangement. One of the consequences doubtless would be, that the Bank of England notes must then be made a legal tender generally, but not on the part of the Bank. That, however, would be no evil in itself, provided the issues of the Bank were under proper regulation, and subject to the check of constant publicity. Another consequence of such an alteration would be, that it would reduce the quantity of gold specie held in reserve by the country bankers; but it would have no

Legal tender.
Tooke,
5,375 to 5,389

Legal tender. effect of that sort upon the Bank of England; the Bank would still be obliged to hold a proportionately large stock, in order to meet that part of the demand from the country which could be satisfied only by coming direct upon its coffers.

At the same time, if such a measure were carried into effect, it would be desirable that the branches should exchange all Bank of England notes, whether branch notes or not, for specie, upon presentation. Increased facilities ought to be given for that purpose; and it might be necessary, with a view to those facilities, to multiply the branch banks through the country. It would not be right that the holders of Bank of England notes, taken in exchange compulsorily for local country notes, should be obliged to come or send to London, as the condition of their getting such notes converted into coin.

It does not follow that if Bank paper were made a legal tender in the country, and exchangeable for specie only in London, the mere inconvenience and liability to expense of transmission, would reduce that paper to a discount in any part of the kingdom. Nothing of that kind appears to have ever taken place, even in a time of panic, in Lancashire, where, previous to the establishment of the branch banks, there was a large circulation of notes of the Bank of England, which were of course at that period convertible into gold only in London. But still it would, on the whole, be preferable, that, under the circumstances stated, the notes of the Bank should be exchangeable in the more immediate neighbourhood of the country holder, at branches established for that express purpose.

II. ONE BANK OF ISSUE IN LONDON.

The existence in the metropolis of a bank of undoubted credit, such as the Bank of England, or any bank properly conducted, is of great advantage to commerce. The assistance, however, which the Bank of England gave to merchants at the close of the year 1825, although the event justified the measure, can hardly be considered as consistent with principle in an institution professing to pay its notes in coin. It was a measure altogether empirical, but it succeeded. It is not easy to conceive a state of things in which, without previous misconduct in the Bank and the banking establishments generally, the commerce of the country could have needed any such assistance. The only case for it would arise out of the usury laws. Had those laws not been in existence, the circulation ought not to be connected with any attempts at assisting commerce, if that assistance can be rendered only by enlarging the issue beyond the amount which the circulation might otherwise have required. If the embarrassments which arose in 1825 had continued, the Bank must have stopped payment; a restriction would then have taken place, and meetings of the merchants declaratory of their disposition to take Bank notes, and all that followed the former restriction. The metals, however, were on the point of flowing in, and did in fact soon after flow in very largely; so that the pressure, though severe, would have been only momentary.

One bank of
issue.
Tooke,
3,860 to 3,869.

If, at the period in question, the Bank had refused to give accommodation, and had endeavoured merely to reserve its own bullion, without attending to the distress

One bank
of issue in
London.

of the mercantile classes in the metropolis, the consequences would have been felt chiefly in further depression of the public funds, and in a severe commercial embarrassment; but it is difficult to see in what way the general resources of the country, or its trade, would have been thereby substantially affected. There would have been an enormous aggravation of private distress, but it could, in the nature of things, only have been of the shortest possible duration. That distress would have been a matter of sympathy with the individuals, but the general resources of the country would not have been impaired by it. There would have been no alteration in the aggregate quantity of commodities, or in the amount of capital, although the distribution would have been temporarily deranged.

But although the Bank of England, on that occasion, departed from its rule of safety, that is no reason why other banks of issue should be founded in the metropolis. There is no more reason for the establishment of two or more banks for the coining of paper for the capital, than for the erection of two or more mints for the coining of metals. The inconvenience of such establishments might not be very considerable; but to whatever extent it might proceed, it would be perfectly gratuitous. Each of the two banks would either, if they were in competition, try, by extended accommodation, to increase their issues, when the demands of the circulation did not really justify it; or they would, if they were acting in concert, only between them grant the same accommodation, and issue the same quantity of paper, with the same proportion of reserves. In the former case, there would be a fluctuation of enlargement

and contraction beyond the occasion, and an increased danger of eventual suspension ; in the latter case, there might be no particular inconvenience, but neither would there appear to be any possible advantage. If, in 1824 and 1825, two or more rival banks of issue had existed in the metropolis, and had not been liable to the sanction of publicity any more than the Bank of England was, the chance is that they would have equally misconducted themselves under similar temptations, and there would then have been a certainty of a suspension of cash payments.

One bank
of issue in
London.

Indeed, one source of issue for the whole kingdom would be preferable to many, but for the difficulty of the details. As matters now stand, however, there would be a great public inconvenience in unsettling the system of currency already established for many years in the country. If the system were to be commenced *de novo*, it might perhaps be a matter for consideration whether advantages would not be gained by having another bank of issue in the metropolis. Yet certain advantages, even if they were apparent, would be no compensation for the inconvenience likely to be produced by a change to an untried state, from a beneficial state of things already in operation.

Tooke,
3,887 to 3,894.

III. SECURITY FOR THE CONDUCT OF THE BANK.

It would not be expedient for the Government to interfere in determining the proportion of bullion that should be kept in reserve by the Bank against its liabilities ; it would be sufficient if, by a regular publication of the state of its affairs, it were under the constant check of public opinion. There might be circumstances in which the

Security for
the conduct
of the Bank.
Tooke, 5,415.

Security for
the conduct
of the Bank.

treasure might be reduced below the usual proportion, and, upon some extraordinary emergencies, considerably lower; but, at the same time, there might be, upon a full view of the state of its affairs, a most clear conviction in the public mind, that the circumstances were of so temporary a nature, that a reflux of the bullion would take place inevitably and speedily, and that, consequently, there was no ground for alarm. But

Tooke, 5,431.

if it should ever happen that the Bank should, from a want of adequate provision, suffer its coffers to be drained of specie, it ought then, as a further measure of security, to be rendered liable to pay interest beyond the legal rate¹ for such suspended payments. A penalty of that kind, added to publicity, would induce the Bank to act with extraordinary caution, and would probably reduce the period of suspension to a few weeks.

IV. PUBLICITY OF ACCOUNTS.

Publicity.

Tooke,
3,871 to 3,878.

There can be no check against the occasional mismanagement of the Bank so effectual as publicity.² It might possibly be attended occasionally with inconvenience; but that would be a very trifling consideration as opposed to the inestimable advantage of the additional security which it would afford. A knowledge on

¹ A provision of this kind appears to be established with reference to some banks in America. Mr. Gallatin, in his elaborate work upon the currency and banking of that country, states that "one of the most efficient securities afforded by the state laws against improvident issues of notes, is found in that of Massachusetts, by which banks are obliged to pay interest, at the rate of twenty-four per cent a year, on all notes or deposits which they may neglect or refuse to pay in specie on demand. A similar provision, but at the rate of twelve per cent, has been enacted by the state of Louisiana, and is also inserted in the charter of the Bank of the United States."

See Appendix I. for the practice of American banks in this respect.

the part of the directors of their being liable to have the amount of the treasure canvassed by the public, is the best safeguard, and the only one, that can be devised against it being reduced below its just proportion. A bank situated like that of the Bank of England issuing paper money, payable on demand, and having to supply upon emergencies the wants of all other banks of circulation in the country, cannot be considered perfectly safe with a treasure much less than half of the amount of its notes in circulation; and if it were subject to a publication, periodically, of the amount of its treasure, it would, and easily could, so manage as to have whatever might be considered a sufficient reserve existing at the time when the publication took place. It would be most desirable to have the account up to the latest possible moment; but if that were determined to be inexpedient, it would be still eminently useful to get it for some recent anterior period; even that would go a great way towards affording the requisite security. The conduct of the Bank would then be open to the exercise of public opinion. The consciousness which the directors would feel, that every part of their management was liable to be canvassed upon a real knowledge of all the facts, would operate as a considerable and beneficial sanction.

The management of the Bank has certainly been very judicious during the last few years; nevertheless, as that management is liable to change with the individuals more immediately connected with the principal functions of the establishment, it would be liable again to such deviations as have already occurred, unless there were a constant check arising from the control of

Publicity.

Tooke,
3,896 to 3,899.

Publicity. public opinion, exercised upon a knowledge of the mode in which the affairs of the Bank are conducted. As to the inconvenience supposed likely to be produced by publicity, it would not be at all important. Speculations upon conjecture, and upon incidental information, would be much more dangerous than accurate acquaintance with the fact. If the Bank were in possession of such an amount of treasure as it ought to have, speculations can do it no harm. As to the occurrence of any material reduction of the bullion, that is precisely the state of things against which publicity would be intended to guard, by causing notes to be constantly suppressed as the demand for gold rises, or, if necessary, in a greater degree.

Tooke, 3,895. The improved experience which the directors of the Bank seem to have acquired in the management of their issues, needs only the addition of publicity to
 3,918. render the present system nearly perfect. There is no doubt that, even without that security, such a lesson as the administrators of the currency received in 1825 and 1826, is calculated to influence the practice of banking for some years. Generations, however, do not always act upon the experience of their predecessors. There are periods of confidence in which all ordinary maxims of prudence are neglected, and then the probability is, that the individuals managing a paper currency would participate in it. All banking is, from its very nature, liable to abuse; and the best guarantee
 3,919. that can be obtained for the due regulation of the currency, both in London and the country, will be found in publicity. Unless some positive inconvenience was shewn to arise from the disclosure, every issuer of paper-

money ought to satisfy the public that his circulation Publicly. is prudently conducted. There is no question that the public have a right to require it, inasmuch as the privilege of issuing paper-money is a delegation of that which is universally considered as a privilege residing in the State. It would be conducive to the general 3,921. safety of banking business, if, in addition to their circulation, the country establishments were to publish also the amount of their immediately available assets; if it were matter of constant practice, it would never be attended with any insecurity to the banker.

V. VIEWS WITH RESPECT TO JOINT-STOCK AND BRANCH BANKS.

Considering the principle upon which joint-stock Joint-stock
and Branch
Banks.
Tooke, 3,945. banks are constituted, it is probable that, upon the whole, they would present greater security against such a banking crisis as occurred in 1825-6 than any system of circulation conducted simply by the competition of private individuals. At the same time, if it were not for the greater unwieldiness of the machinery, which is 3,947. already as much as any set of directors are likely to manage correctly, the branches of the Bank of England would be preferable to joint-stock companies, for the management of the interior circulation.

VI. ONE-POUND NOTES.

No reason can now be stated as justifying a return to the circulation of one-pound notes which did not exist One-pound
Notes.
Tooke, 5,390. in 1826, when they were finally prohibited.¹ Such a circulation, if it were again to exist, would certainly

¹ That is to say, prohibited to be *issued* after February 1829.

One-pound
Notes.

endanger, upon the occurrence of a panic, the convertibility in a greater degree than would be the case in a currency consisting of a large proportion of coin. A small-note circulation has the further disadvantage of being that part of the currency, which is most apt to expand under circumstances favourable to an extension of credit, and to a rise of prices; and to contract under the opposite circumstances; and, consequently, to entail a greater fluctuation both of credit and prices. Nor can there be any doubt, that the intensity of a run, in case of a panic of any kind, would be very much increased by a small-note circulation. For instance, upon such an occasion as occurred in May 1832, when there was a great deal of political excitement, the demand for gold would have operated with much more rapidity and violence than it actually did, if the small-note circulation had been continued.

One valid reason, amongst others, for preferring a metallic to a small-note currency, was stated in a petition from Manchester, presented in the year 1826 to the House of Commons, namely, that in times of bad harvest it forms a reserved fund with which the country can pay for the imports of corn at such periods. There can be no question, that in proportion as the quantity of metals circulating through the country is greater in relation to the paper, in so far will any drain for any purpose be supported with more efficacy, and for a greater length of time.

VII. PAYMENT OF THE DIVIDENDS.

Payment of
Dividends.
Tooke, 5,437.

Mr. Tooke having been asked, whether it would be advantageous to make a portion of each of the three per

cent stocks payable in the intermediate periods, so as to have in the whole eight payments of dividends in a year instead of four, answered, that such an arrangement would certainly be desirable, had not a practice substantially similar been already adopted by the Bank, which advances money upon Government securities at a moderate rate of interest, in the interval preceding the quarterly payment of the dividends. That practice has had a very beneficial tendency.

Payment of dividends.

VIII. STATE PAPER-CURRENCY.

If at any time the cash of the Bank of England were to be completely drained, it might be a question whether, in that case, the credit of the country would not stand upon a better footing, if the Government were immediately to have recourse to the issue of paper under the sanction of Parliament. If there were any real apprehension of the failure of the treasure of the Bank, it might be advisable that machinery should be in preparation by which exchequer-bills should be divided into small sums of issue for the purposes of currency. But if they were not made payable to the bearer, and convertible into gold, the public would not take them unless at a discount, or unless they were made a compulsory currency. It would at best be a cumbersome sort of expedient. It might, however, be adopted for a limited period of time, if rendered absolutely necessary by the supposed emergency, although, in effect, there would be no difference between the issue of such a paper and a legal suspension of cash payments. Of the two alternatives, the latter would, perhaps, be the less objectionable, inasmuch as, if the

State paper-currency.
Tooke, 3,933.

3,936.

3,937.

3,938.

5,425.

State paper-currency.
Tooke, 5,428. Government were once in the habit of issuing such paper, the inducement to continue it, or again to resort to it in times of difficulty, would be irresistible.

- 3,934. Had it not been for the danger of making the circulation subservient to purposes of finance, all paper-money ought to be issued by Government, just upon the same ground that coin is issued as the exclusive privilege of the State. But there would be no possibility of providing such guards and checks as would prevent, what we have invariably seen in the case of all Government paper-money hitherto, the issue from being made directly subservient to fiscal operations, and consequently liable to infinite depreciation. If the Govern-
- 5,412. ment were to issue paper-money, it would be obliged to undertake all the detail of that department of the banking business, which consists in providing specie for the payment of its paper when presented. If a company
- 5,413. were to undertake it, the Government might fairly require a participation in the profits which arise out of the issue of paper-currency.
- 5,414.

CHAPTER XXV.

OPINIONS OF MR. GROTE WITH REFERENCE TO THE PROJECTS OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER IN THE COUNTRY, OF HAVING ONLY ONE BANK OF ISSUE IN LONDON, AND OF PUBLICITY OF ACCOUNTS — HIS VIEWS WITH RESPECT TO ONE-POUND NOTES, AND A STATE PAPER-CURRENCY.

I. LEGAL TENDER.

IF country bank-notes were made payable in Bank of England notes only, it would unquestionably operate ^{Legal tender.} ^{Grote,} 4,685 to 4,718. to save a great drain for gold upon the Bank in times of commercial discredit, when especially country bank paper generally is liable to a certain degree of suspicion. It would have the effect of diminishing the quantity of gold now kept by country bankers, as no more would then be retained than would be required for the purposes of circulation in the absence of notes under five pounds. As far as regards the constant wants of the circulation, however, they would still be obliged, for the convenience of their customers, to retain a sufficient stock of gold to supply them. But if they were at liberty to make their notes payable in Bank of England notes only, they would be protected from the obligation to furnish such gold at times when it would be wanted, not for the general circulation, but only as a substitute.

Legal tender. for their own suspected paper. Under these circumstances, the drain upon the Bank treasure would not be near so great as if they were compellable to exchange their notes for gold.

As to the supposition that a country banker might then demand a premium upon the gold which he might issue in payment for his five-pound notes, the legislature might trust to the effects of competition for preventing any undue exactions of that sort, and for securing a sufficient supply to any person who wanted gold for ordinary purposes. In the event of alarm or discredit, country bankers would of course be enabled, under the suggested alteration, to resist payment in gold; but it cannot be imagined that they would decline accommodating their customers in an ordinary state of circumstances, assuming the demand to be to a reasonable extent. The system here proposed should, however, be reserved only for times of peculiar pressure; and the practicability of the change must depend altogether upon the temper of the population, and upon their being willing to take the Bank of England notes. In Lancashire, where there is no local-note circulation, and where the Bank of England paper is universally used, very little mistrust has arisen at periods when it prevailed extensively elsewhere. It might be reasonably inferred that a similar feeling would exist in other parts of the country.

II. ONE BANK OF ISSUE IN LONDON.

One bank of issue. No benefit could be derived, but, on the contrary, there would be a considerable chance of evil, from a multiplication of joint-stock banks of issue in the me-
 Grote, 4,763 to 4,770.

tropolis. If there be only one bank of issue, the circulation must be considered as a whole, which would be impossible if it were to be distributed amongst six, or eight, or ten banks. With one bank of issue only, supposing that bank to be placed under the control of publicity, the country has a much better security for the circulation being administered upon fixed principles, and enlarged or contracted with a constant reference to the foreign exchanges, than it would have if there were a variety of issuing companies. No one among these competing banks would be either able or willing to measure its own separate issues, with reference to that total of circulating medium which might be proper for the kingdom at the moment. Each bank would study principally the means of increasing its own part of the circulation, and would be tempted to extend its issues, not at the time when it might be desirable for the circulation generally that they should be extended, but at any time when there was a prospect of unusual profit, or of acquiring new connexions, taking the chance of being able to supplant the notes of other banks. The temptation to over-issue, if there be many issuers, is greater than where there is only one ; the competition between them would lead each to be more liberal in its advances during any period of excessive speculation. A certain circle should be drawn round London within which no joint-stock bank of issue should be permitted to erect itself ; but whether the radius should be sixty-five miles, is a question that requires consideration. As to the prohibitions against joint-stock banks established beyond the prescribed distance, drawing upon London for sums under 50*l.*, and making notes payable there

One bank of
issue.

One bank of on demand, Mr. Grote is of opinion that they ought to
issue. be continued.

III. PUBLICITY OF ACCOUNTS.

Publicity. Mr. Grote is also of opinion that a more complete
Grote, publication of the affairs of the Bank than has been
600 to 4,683. hitherto permitted, would be especially necessary. He
thinks that the public are kept too much in the dark as
to the management of the Bank, and that fuller commu-
nications on this subject would be beneficial to all parties.
If the Bank were to publish, at frequent and stated
periods, such documents as would afford a complete
insight into their affairs at each time of publication,
they would be compelled to lay down some uniform,¹
definite, and intelligible rule for determining the fluc-
tuations in the amount of the circulating medium, and
to adhere to that resolution without deviation. The
public, on the other hand, would understand the rule,
and would be prepared beforehand for its operation, so
that their anticipations would be properly adjusted to
the real sequence of events, in this important depart-
ment. It is quite essential that the accounts to be
published should include the amount of the bullion.
Unless the public were made acquainted with the store
of bullion existing in the Bank, at each of the periods
of publication, no full, true, or satisfactory idea could
be formed by them of the actual condition of the Bank,
or even of the real amount of circulation, the reserve of
bullion being always to be taken as a deduction from
the nominal amount of notes out at the time.

¹ Mr. Grote states, in another part of his evidence, that he knows of no other
suitable test for the Bank to be guided by than the foreign exchanges. — 4,645.

Publicity would enable the directors to resist solicitations upon the part of Government, assuming that those solicitations were improper to be complied with. Coupled with prudent management, it would also be the most effectual protection which could be afforded against drains. Of course, it is possible to imagine a case of such wide-spread antipathy and alarm, that the Bank may be exhausted of their gold under any system; but it would be much less likely to happen when the public are at all times, in periods of quiet and prosperity as well as in those of agitation and distress, fully acquainted with the management of the Bank, and with all the particulars of their actual and comparative condition. If the public were put in possession of complete accounts from time to time, they would acquire a sober and settled habit of appreciating that establishment as it deserves, and that habit would still continue, even if at any particular juncture there were a decrease of the stock of bullion compared with what it had usually been. Publicity.

It has been suggested, that large capitalists, speculating on deriving advantage from distressing the Bank, might obtain facilities for the accomplishment of their object from the publication alluded to. But under the present arrangement, it may always be easily known by inquisitive persons when the treasure of the Bank is low; and though they may not be able to get at its exact amount, they may gain sufficient information for their purpose, if any such purpose they could hope to realise. The danger, therefore, would not be increased in that respect by publicity; on the contrary, the general alarm which such a design could not fail more

Publicity. or less to create, would be very much mitigated by the established habits of judging, which publicity would implant in the mind of the community. They would be less affected by even the greatest temporary inconvenience which could be brought upon the Bank, if they were in the constant habit of receiving official reports, enabling them fully to understand all the fluctuations in its affairs.

Publicity would contribute materially to prevent the recurrence of such a crisis as that which occurred in 1825. If the Bank accounts had been published in 1824 and 1825, the directors could not have been imprudent enough to maintain, in the face of exchanges unfavourable to the country for some months, an increased amount of issues. They would have been compelled not only to abstain from increasing their circulation, but to begin the contraction of it at an earlier period; and had they acted in this manner, the commercial revulsion at the close of 1825 would have been less extensive and calamitous than it actually was. Even in case of a run upon the Bank from political excitement, publicity would tend to prevent persons possessed of property in public securities from converting that property into bank-notes, in order to demand payment for them in gold. They would be then aware, that at such a period (assuming a drain to have commenced) the Bank would be under the necessity of selling a portion of their productive securities in order to check the drain, and that this operation would have the effect of lowering the price for others to sell at the same moment.

A retrospective publication of the accounts of the

Bank, after an interval of three or six months, would be better than no publication at all ; but it would not have the effect of conveying to the community that full assurance and satisfaction which would be one of the eminent benefits of present publicity. A weekly publication would be preferable to any other. Publicity.

In the existing state of things, there is in the public mind a general ignorance, as well as a consciousness of ignorance and an absence of all settled habits of reasoning, with reference to the affairs of the Bank. There is at the present moment no want of confidence ; nevertheless distrust is easily excited ; and in a period of distress and alarm, it would be much more easily created than it would be under a system of continuous publicity, when the real condition of the Bank could not be either mistaken or misrepresented. The want of confidence which is usually generated at such a period, does not arise from any positive ground of apprehension. If any person actuated by that feeling were questioned as to the cause of it, he probably would not be able to explain it very correctly ; but he would, nevertheless, yield to his fears, and they would lead him to go and present a note to the Bank for payment. It is of the essence of that mistrust which proceeds from want of information, to be vague and undefined. Now, if publicity were to take place, confidence would be increased at all points—confidence in the convertibility of the Bank paper on demand, confidence in the general good management of the establishment, and confidence in its being regulated upon some uniform and systematic principle, of which at present the public know nothing. They would, if the accounts were regularly before them,

Publicity. watch the conduct of the Bank during quiet and flourishing periods ; and their opinion respecting it would be so fully settled during those times, when their judgment would be secure and undisturbed, that it could not be easily shaken if causes of agitation and alarm were to supervene.

It is possible, that upon the first publication of the amount of bullion in the hands of the Bank, assuming the stock not then to exceed the usual proportion of one-third of its liabilities, some degree of alarm might be excited in the minds of the public by that statement, although to persons at all acquainted with banking affairs it would be perfectly satisfactory. But even if that were the case, it would be no reason against publicity. If the public at this moment believe the Bank to be a bank for the deposit of bullion, similar to the banks of Amsterdam and Hamburgh,¹ and that Bank of England notes are bullion notes, representing an equal amount of gold in the vaults of that establishment, the sooner they are disabused of such an error the better. Preparation should be made for shewing them that even in prosperous times there is no more bullion in the coffers of the Bank than is adequate to discharge one-third of its liabilities. If the public were familiarised with this idea, they would perceive that they are not much better secured in seasons of prosperity than in those of alarm ; that really there never is, even at the most flourishing period, bullion enough in the Bank to meet more than a certain proportion of its notes ; that there is always, even when bullion is low, something amounting very nearly to the like proportional security ;

¹ See Appendix I.

and that the Bank is never more than provided against what may be considered as the probable and reasonable demands of the actual moment. Publicity.

If a drain were to commence upon the Bank from political causes, it is not at all probable that it would be increased by a continuous publication of the exact amount of stock. The state of that stock becomes rapidly notorious at a season of alarm, and that notoriety would be quite sufficient to occasion as heavy a drain as a regular promulgation of the accounts could possibly do. The treasure of the Bank is never unusually low, excepting when there has been a state of considerable contraction of the currency and distress for money, so as to excite a great deal of talk every where. That distress is chiefly felt among the smaller traders, who form the body of the London public, and who are always the first to suffer by a reduction of the circulating medium. Reports of diminished treasure in the Bank are pretty sure to be widely circulated at such a moment, and readily credited.

A strong distinction should be taken between a continuous report of the accounts of the Bank, and a solitary official announcement of a reduced state of their bullion at a period of alarm. The conduct of the Bank in relieving commercial distress towards the close of 1825, was liberal and daring; but it was judicious and proper also, because they certainly did very great good, although they ran the hazard of a suspension. Under a system of uniform publicity they would have been enabled to render that assistance, had it been required, with much more safety to themselves and to the public, because it would have prevented

Publicity. them from extending their issues during the months anterior to the distress, when the commercial world was in a state of artificial excitement, when the foreign exchanges were against them, and when gold was already departing from the country, so as to afford evidence that the circulation was already redundant, without any increased issue on their part. But if at the crisis alluded to, the stock of the Bank had been suddenly divulged, never having been published before, there might undoubtedly have been an increased alarm produced in the public mind. Even without publication, the state of the treasure was notorious enough; but the official report would have sanctioned the previously current belief.

“ You are, of course, as a banker,” asked a member of the committee, addressing himself to Mr. Grote, “ deeply interested in the commercial prosperity of the country; consequently, any considerable run upon the Bank of England, disturbing the circulation, must be injurious to you; would you, as a banker, feel any alarm if it were decided that the accounts of the Bank of England should be continuously published?”— “ Not only,” replied the witness, “ should I feel no alarm, but I should conceive that a better security had been provided than now exists against the drains which at intervals must more or less assail the Bank for bullion. I should conceive that such drains were less likely to occur under a system of continuous publicity than they now are.”

“ And should you feel no alarm for the immediate effect which might follow the publication of the affairs of the Bank?”—“ I should feel no alarm whatever.”

“ You are probably aware that in May last there was a considerable draft upon the treasure of the Bank of England, and the consequence of that demand was, that the cash of the Bank of England became unusually low; do you think, if the amount at the time had been published (that demand arising from political causes), the publication would not have created a material inducement to withdraw the whole of the treasure of the Bank of England that remained?”—“ If you suppose that a certain number of the population enter into a sort of conspiracy against the Bank of England, totally unconnected with any alarm as to its solvency, or any pressure of commercial distress, and if that conspiracy were carried to a great extent, of course it might drain the Bank, whatever might be its stock of bullion, and whether declared or not declared. But it does not appear to me, that there would be any increased motive or facility for carrying on such a conspiracy arising from the fact of the stock of bullion being officially proclaimed to the public, as compared with the exaggerated reports which would of course be current under such a state of things, that the stock of bullion had been materially reduced, and was at that time considerably below its average amount. Such reports are the necessary accompaniments of a drain upon the Bank, arising from the wide-spread feeling supposed to be in operation against it, and they would tend quite as much to the encouragement of the conspirators as an actual communication of the exact stock of bullion in the Bank would do. On the other hand, I would observe, that publicity even in that case would be beneficial in this way, that it would materially tend to prevent

Publicity.

Publicity. parties not concerned in the conspiracy from applying to the Bank under different feelings, merely from blind and unthinking alarm, at that particular moment; they would be better guarded against artful misrepresentations of the condition of the Bank, and against any undue mistrust of it, by the previous habitual publicity of its affairs; and therefore a drain upon its treasure, arising from political causes, would be less aggravated by undefined alarms from other sources. I would also beg to observe, that in that continuous series of reports which I propose, there would be included the stock of notes and deposits on one side, constituting the liabilities of the Bank, and the stock of bullion and productive securities on the other, constituting the assets of the Bank; so that, when any reports exhibited the stock of bullion as being diminished, it would also exhibit a corresponding diminution in the notes and deposits on the other side. Now, under the present system, when reports arise, and the stock of bullion in the Bank is unusually low, those reports seldom advert to the almost inseparable fact, that at the same time the notes and deposits of the Bank are unusually low; therefore, persons under the present system are unduly affrighted by looking altogether to reports about the low stock of bullion, without taking into consideration that the liabilities of the Bank are at the same time unusually small also. But in the series of reports I have been describing, those two facts will always be brought simultaneously, and in the same paper, before the eye of every man."

An unreserved communication of the affairs of all private banks of issue would be an additional benefit to

the public, and would be of eminent service in assisting the Bank to judge of the drains likely to ensue upon their coffers from disturbance in the country circulation. Every banker who issues notes payable to bearer on demand, becomes a dealer with the public in general. His responsibility must be trusted by unassignable individuals, with whom he has no specific connexion, and who have neither time nor opportunity to investigate his circumstances; and he may therefore be justly called upon to furnish peculiar security in the way of publicity. There is no reason why banks that are not banks of issue, but merely of deposit, should be required to divulge their accounts, because they deal only with specific individuals, and have no trust reposed in them by the general public. If the accounts of the country banks of issue were withheld, the Bank of England would be deprived of a most important piece of information with reference to the regulation of their own issues, and would be compelled to keep a greater average reserve of bullion, as a general protection against drains from the country, the probability of which they would have no means of accurately ascertaining. The difference which the want of that publicity would make with respect to the Bank, would be determined by the increased store of bullion which they would be obliged to reserve against the unknown provincial demand to which they would be exposed; but it would be no good reason for a similar want of publicity on the part of the Bank. That publicity would still be productive of much benefit, though not by any means so great as if full accounts were returned by all establishments engaged in the issue of paper money. It would enable the private bankers

Publicity.

Publicity. to manage their own affairs better ; it would inform them when they might expect a contraction or an enlargement of the Bank's circulation, and it would consequently tend to diminish the danger to the Bank itself from the issues of country paper.

The publication by private banks, situated in the neighbourhood of large joint-stock banks, of the amount of cash and notes in their possession, would not put them in greater danger from the rival operations of those establishments, than they are in at present. It is generally known now to all the rivals of a small bank, that its capital is very small ; and the disclosure of the facts respecting that bank, provided it were in a satisfactory state of solvency, would only shew a perfect proportion between its liabilities and its means to meet them. Such a statement, far from aggravating any undeserved mistrust of the small bank, would rather tend to increase public confidence in its stability. No bank, in fact, wherever situated, which deserved good credit, would be injured by publication, though it might undoubtedly destroy a bank which was not perfectly solvent.

The principle of publicity should apply also to the banks of Scotland and Ireland;¹ for although one-pound and two-pound notes are still circulated in those parts of the United Kingdom, nevertheless publicity would place the community around them in a situation much better fitted to resist all incitements to alarm, especially to political alarm, than they would be under any system of secrecy.

The promulgation of their accounts by country bankers would not compel them to keep in reserve a greater

¹ See Appendixes K L for a brief account of the Scotch and Irish Banks.

Publicity.

proportion of gold than they ought in prudence to retain under the circumstances in which they are now placed. They ought at all times to be possessed of a stock adequate to meet the chance of a drain, from whatever cause it might proceed; and if the system of publicity were to be established, no bank would suffer its affairs to be in a condition which would, to a reasonable man, convey the least apprehension of its failing.

It has been supposed that many country banks, if they were to be compelled to promulgate their affairs, would prefer giving up their issues, and becoming mere banks of deposit. There seems to be no good reason why they should discontinue their issues on that account, if they were solvent and their affairs flourishing. But if any bank did so determine, there is no doubt that the place of its notes would be soon filled up by other wealthy bankers, who would find the obligation of publicity neither burdensome nor discreditable.

IV. ONE-POUND NOTES.

One-pound
notes.
Grote, 4,746.

Mr. Grote was asked, what view he took of the policy of returning to the currency in England of one-pound and two-pound notes? To which he answered in these terms:—"I am disposed to consider that one-pound and two-pound notes, payable in coin on demand, are so liable, during periods of pressure, to create derangement and to extend alarm, that the benefit derived from them in the way of cheapness is not an adequate compensation for the mischief at those peculiar periods. On that ground I am disposed to think that there is a balance of evil, on the whole, against them, and that it would not be wise to restore them."

V. STATE-PAPER CURRENCY.

State paper.
Grote,
4,747 to 4,750.

With reference to the question, whether it would be proper for Government itself to become an issuer of paper, in preference to the Bank, and thus take to itself the profits which the Bank derive from furnishing so great a portion of the currency, Mr. Grote conceives that it would be better to leave the directors to manage the circulation as they now do, than to have national commissioners appointed for the purpose;—always understanding that the Bank should be under the check of continuous publicity. It would, he thinks, be farther essential that the country should share much more largely in the profits of the circulation than it now does. If the Bank be intrusted with the function of providing a circulation, unquestionably that circulation ought not to be considered as Bank property, but as national property; and the Bank should be allowed to receive no more of the profits, than would be considered as a fair remuneration for the trouble and risk of administering the details of the currency.

Other advantages would be derivable to the public from a circulation managed by directors, being commercial men, which would not be afforded by Government commissioners. Persons chosen by Government might equal the directors in commercial knowledge and power of accommodating the trading world; but it might not be so easy for Government commissioners to equal the directors in reputation for incorruptible integrity, even if their conduct were just as pure in reality. The function of administering the currency is one peculiarly likely to provoke suspicion, which the directors

have always escaped, chiefly from their actual merit, State paper. but to a great degree also because their commercial position shuts out the idea of intentional dishonesty. The principal advantage, apart from this, of a Bank circulation in preference to a direct Government circulation, consists in its affording greater security against violent interference and intentional debasement on the part of Government, which the history of all states shews to be too probable during any period of embarrassment. Moreover, under a Bank circulation, there is a great mass of private or corporate funds pledged to the holders of notes in addition to the security arising from the vast capital of the Bank lent to Government. Finally, a Bank circulation has long been the only known and habitual circulation in the metropolis; a sufficient motive for continuing it, in preference to a Government circulation, unless there were special motives for determining in favour of the latter.

CHAPTER XXVI.

OPINIONS OF MESSRS. DYER, BURT, AND SMITH, WITH REFERENCE TO THE EXCLUSIVE PRIVILEGES OF THE BANK OF ENGLAND, AND THE PROJECT OF MAKING ITS PAPER A LEGAL TENDER IN THE COUNTRY—THEIR VIEWS WITH RESPECT TO IMPROVEMENTS IN THE SYSTEM OF JOINT-STOCK BANKING COMPANIES.

I. EXCLUSIVE PRIVILEGES OF THE BANK.

Exclusive privileges of the Bank.
Smith, 4,331.

THERE are the greatest objections to the renewal of the Bank charter, with any exclusive privileges whatever. The evils so long experienced and still in operation, resulting from the control exercised over the currency by the Bank, are sufficient evidence of the impolicy of such a measure. As to the supposition, that the Bank affords assistance to the commerce of the country, it has no foundation. Probably, not more than one-tenth of its issues are founded upon discounts of mercantile paper. According to an official statement recently issued by the Bank of the United States, it appears that the capital of that bank was then thirty-five millions of dollars, and that its notes in circulation were sixteen millions of dollars, making a total of fifty-one millions. This sum total was partly disposed of in discount of notes to the amount of thirty-two millions, and in the discount of domestic bills to the amount of ten and a half millions, making a total of forty-two and a half millions

employed in commercial objects. The capital of the Bank of England amounts to 14,500,000*l.*, and its circulation to 19,500,000*l.*, making a total of 34,000,000*l.* now in capital and circulation. Yet, of those 34,000,000*l.*, probably not more than two or three millions are issued on commercial discounts, the remainder of this immense sum being engaged (chiefly) in loans to the Government. It is true that a portion of the circulation of the Bank is employed by private bankers in commercial discounts; but if the Bank held these discounts, it would probably be by a new issue of its notes, which would increase the currency, whilst the private banker could only hold them in exchange for notes already issued, or for some other property not affecting the circulation. When the Bank employs money in mercantile transactions, it is called for by the wants of the public; but when it employs its funds in the purchase of exchequer-bills or in Government loans, those issues are not called for by the exigencies of trade; and in that respect the commercial public sustain an injury by the emission of notes, which are not required for the purposes of the currency.

Exclusive privileges of the Bank.

Smith, 4,347.

4,349.

II. LEGAL TENDER.

Neither private banks nor joint-stock banks ought to be released from the obligation of paying their notes in gold on demand. The obligation so to pay their notes is a natural check against excessive issue, which would not exist if they had the power of redeeming them with Bank of England paper. The difficulty of procuring that paper on some occasions, and the facility of getting it on others, would still render the local circulation as

Legal tender
Burt, 4,483.

4,486.

4,488.

gal tender. fluctuating and insecure as it is at present. No bank-
 4,489. note should be made a legal tender. Every bank
 4,492. should depend upon itself for keeping a sufficient supply
 of gold in its own coffers for its own protection. If the
 legislature were to make the Bank of England notes a
 legal tender upon the part of country bankers, they
 would place the monetary system in a much worse
 situation than that in which it has already been for
 many years.

III. IMPROVEMENTS IN THE SYSTEM OF JOINT-STOCK COMPANIES.

improve-
 ments in
 joint-stock
 system.
 Dyer, 4,197.
 The directors of the joint-stock banks at Manchester
 and Liverpool submitted to the Chancellor of the Ex-
 chequer, after much consideration of the subject, a set
 of propositions, comprehending the views which they
 took of the alterations that ought to be effected in the
 present law relating to such establishments, before they
 would deem it advisable to issue paper-money of their
 own. Those propositions, which were read by Mr.
 Dyer to the committee, are as follow :—

“ 1. That joint-stock banking companies shall consist of at
 least one hundred proprietors, of whom not fewer than twenty
 shall have paid up at least 1,000*l.* each.

“ 2. That such companies shall have a paid-up capital of at
 least 100,000*l.* and a subscribed capital of not less than 500,000*l.*,
 and that all proprietors of such companies shall be individually
 answerable for all the obligations of the company.

“ 3. That such companies shall make and execute a deed of
 settlement, stating the number of proprietors, the amount of sub-
 scribed and paid-up capital of each respectively, the names and
 designation of the directors and public officers, and all the con-
 ditions of the partnership ; which deed shall be sent to a public

registry before it shall be lawful to commence business as a joint-stock banking company.

Improvements in joint-stock system.

“ 4. That such companies shall not establish branches at a greater distance than twenty miles from the parent bank, nor shall such be empowered to issue notes or bills other than those of the parent bank; such branches being intended to act only as discount and deposit offices.

“ 5. That such companies shall be under the government and control of Boards of Directors, to be annually chosen by the proprietors, consisting of not fewer than seven.

“ 6. That reports be made annually by the directors of such companies, exhibiting a corrected list of the proprietors, with the amount of stock held by each, the amount of capital at the time, and a full and fair account of the affairs of the company; which report shall be sent to a public registry, and be accessible to the public on the payment of one shilling.

“ 7. That such companies shall have the power of making their notes and drafts, of whatever amount, payable either at their respective localities or in London, or in both places, but not elsewhere, and when payable in London, either at a London banker's, or at an office of the company.

“ 8. That such company shall have the power to draw Bank post-bills, made payable to a party other than the party from whom the value is received, as the Bank of England.

“ 9. That such company shall have the privilege of using the same description of engraving and water-marks for the prevention of forgery as the Bank of England has or may have secured to it.

“ 10. That such company shall have the power to compound for stamps on the same terms *pro ratâ* for the business done as the Bank of England.

“ 11. That assignees and trustees, who may be shareholders in such companies, shall have the power to deposit the trust-moneys in a joint-stock bank, notwithstanding their having a proprietary interest in the company.

“ 12. That transfers of shares in the stock of such company be allowed to be made on one-shilling stamps.

“ 13. That all banking-houses not conforming to the proposed law, be held by law to be private banking-houses, of whatever number of partners they may consist.

Improvements in joint-stock system.

“ 14. That while compliance with the preceding conditions be enforced by Parliament in every joint-stock bank that shall be established, a specific license or charter shall be requisite in each particular case, in order that Government may exercise its discretion on every application in determining the number of proprietors and amount of paid-up and subscribed capital which may be requisite beyond the minimum prescribed by law, to give full security to the public, and a reasonable protection to joint-stock banks previously established.”

With reference to the first of these propositions, the parties who drew them up consider that there ought to be at least one hundred proprietors, to prevent the imposition of a sham company; and, in order that there should not be a hundred persons of no substance associated, they think it necessary that of the hundred subscribers twenty should have paid in cash at least 1000*l.* each. There cannot be a solid bank without twenty partners who have property enough to spare that sum; and any such association not thus strengthened by numbers and by respectability, ought not to assume the character of a joint-stock bank. The minimum of capital stated in the second proposition would not of course be sufficient for such a town as Liverpool or Manchester; it was suggested with reference to smaller towns, such as Derby, Leicester, and Northampton, in which it might be desirable to give the community the benefit of having such banks. The main point in view is, that there should not be any company denominated a joint-stock bank, in which the public should not have entire confidence. All the conditions specified in the third proposition are deemed absolutely indispensable to the formation of sound companies; without some such provision, there would be a temptation for persons of no

ver, 4,198.

4,223.

4,224.

4,231.

property to turn bankers, where neither the character of the individuals, the amount which they might have paid, nor the articles of co-partnership, could be known. The fourth proposition gives the power to a joint-stock bank, if it chooses, in a place like Manchester, to have offices in the neighbouring towns whose business centres there. The objection to the establishment of branch banks at a greater distance than twenty miles from the parent bank, is, that the latter might then have the power to send its notes by extraordinary efforts to remote parts of the country, and thus force them into circulation. But paper so issued ought not to form part of the circulation; and if a bank have many branches, they become, in fact, so many banks, which would be objectionable. The expedience of the suggestion contained in the fifth proposition is obvious. The sixth proposition contemplates a full and fair account of the whole affairs of the bank, including the amount of treasure and every thing; such a periodical publication being considered indispensable, in order that the public may know whom they have to deal with.

Improve-
ments in
joint-stock
system.

Dyer, 4,232.

4,236.

The seventh proposition is considered by the parties who have approved of it as one of particular importance. Their whole plan goes upon the supposition, that, if adopted, it would effect a great improvement in the currency; and that it would give to the nation at large a quantity of paper money not liable to suspicion, in whatever part of the kingdom it might happen to circulate. It would not, however, attain that character unless it were to be made payable in London, the great centre of the monetary system. The privilege mentioned in the eighth proposition is contrary to the

4,238.

4,245.

improvements in
joint-stock
system.

general law of bills of exchange; but it is one that is possessed and exercised by the Bank of England, and would be attended with convenience to customers. With respect to the change alluded to in the ninth proposition, if it be true that any particular design, or any description of paper, or water-mark, be in effect a security against forgery, it seems reasonable that the power of using it should be extended to the community at large, with a view to the prevention of crime.

r, 4,258.

4,260.

The tenth, eleventh, and twelfth propositions need no commentary. The condition mentioned in the thirteenth proposition would be absolutely essential to the operation of an open and equal competition amongst bankers: it is directed against the existence of spurious companies. The provisions specified in the fourteenth proposition are considered of primary importance. It would be most convenient if the power of granting charters were vested in the Government, or in the Privy Council, or in some discretionary board, inasmuch as special acts of Parliament are frequently very defective, in consequence of the hurried manner in which they are passed. The concession of the charter should depend entirely upon the discretion of the authority granting it, as the minimum stated might lead to the establishment of companies that would be very unfit to discharge the offices required of bankers in such towns as Liverpool, Manchester, Birmingham, and Leeds. There should, moreover, be a reasonable motive for inducing capitalists to form joint-stock banks; and that motive would be much strengthened if they were to be assured that their bank, founded perhaps on half a million of capital, would not have to compete with

another alongside of it with a capital of only a hundred thousand pounds.

Improvements in joint-stock system.

The establishment of banks with considerable funds upon the plan above mentioned, might perhaps be looked upon as the chartering of so many partial monopolies ; but they ought not to be so considered, the object in view being the enforcement of the use of an ample capital, proportionate to the business of those places in which they might be situated. If the trade of banking were thrown open to competition, the public would be greatly benefited by it, provided they were protected from its consequences. Bankers are always sufficiently powerful and cunning to devise means for their protection, and for securing profit upon their capital ; and for the accomplishment of that purpose they do not require the support of any monopoly or exclusive privileges whatever. But the public are not always upon the alert ; and not being able to guard sufficiently against the undue influence of a bank pushing into circulation paper that is objectionable both as to quantity and security, it would be necessary, for the safety of the community, that restrictions should apply here in contradiction to the general principles of free trade, which principles are perfectly sound as to manufactures. As the issue of paper is not a coinage nor a manufacture, but a circulation of credit, restrictions ought to apply so that that credit shall not be injuriously used against the public. An absolutely free trade in banking would be injurious ; while a partial monopoly, if such it ought to be called, would be advantageous in this way. In order to secure a sound system of currency, it should be founded upon a metallic basis. If such a system

Dyer, 4,261.

4,290.

4,291.

Improve-
ments in
joint-stock
system.

were established, then the aggregate amount of gold which the different banks would find it necessary to reserve as the basis of their circulation, would render the total circulation increased in numerical amount, and at the same time much more secure, because every one would keep enough of specie in his possession to prevent a depreciation of his notes. The metallic basis of the circulation being thus distributed among a hundred chartered banks, for example, placed in different parts of the kingdom, so as that they could not meet together, (as they might do were they all in London), and devise some systematic plan of action, would furnish a more enlarged, as well as a sounder currency, than if the whole of the gold were concentrated in the hands of one body, whatever that body might be, and liable to be exhausted by the demands of an indefinite number of banks scattered through the kingdom.

Oyer, 4,292.

There can be no objection to the Bank of England being one of these joint-stock banks, provided it were subject to the same restrictions in all respects, and possessed only the same privileges. Undoubtedly, from the vast capital of the Bank, and from its unlimited credit, it would be some little time before those institutions could get themselves established, so as to displace the notes of the Bank; and so far it might be right, because it would prevent a sudden change. But it is most likely that ultimately the system would be altered, and that the great mother Bank would gradually dwindle down, so that it would not be profitable to use its capital in banking; and, in the meantime, the others would grow up. There is another circumstance connected with the Bank, which would render it a less formidable

rival than might be supposed from its capital and its unlimited credit; namely, that, as the Bank of Government, it is obliged to issue a large amount against a sort of security which does not return to it in the ordinary way that commercial paper does, inasmuch as it is hampered with the necessity of paying away seven or eight millions a quarter, which it cannot be certain of getting back, excepting as it flows from the Treasury; but, in the interval, other banks would have an advantage in furnishing the commerce of the country.

Improvements in joint-stock system.

With reference to the subject of security, Mr. Burt is of opinion, that a private banker should be bound to find security in all cases. If he have a sufficiency of funds, it can be no inconvenience to him; and if he have not such a sufficiency, he ought not to be permitted to issue paper money. But he should not be required to publish his affairs to the world. It would be an infringement of his personal liberty, to ask him any questions, either as to the amount of his capital, or as to the way in which he might choose to dispose of it. As to joint-stock companies, the proposed publicity of their affairs would be a sufficient guarantee for their solidity; and there is no doubt that if the trade of banking were thrown open to competition, and the currency were to consist of the issues of joint-stock companies and of private banks that had given security, it would be perfectly satisfactory to the public.

Burt, 4,501.

CHAPTER XXVII.

OPINIONS OF MR. BURGESS WITH REFERENCE TO THE PROJECTS OF MAKING THE BANK OF ENGLAND PAPER A LEGAL TENDER—OF CONFINING THE PAPER CURRENCY OF THE KINGDOM TO NOTES OF THAT ESTABLISHMENT—AND OF PUBLICITY OF ACCOUNTS. HIS VIEWS WITH RESPECT TO A DEMAND OF SECURITY FROM COUNTRY BANKS—HIS OBJECTIONS TO BRANCH BANKS AND TO JOINT-STOCK BANKING COMPANIES.

I. LEGAL TENDER.

gal tender. If the Branches were confined to the assistance which
Burgess, they give to the private bankers, and not to enter into
5,533. competition with them, the establishment of those institutions would be advantageous, especially under the present regulations of the currency; and it is understood that in that case many private houses would be disposed to extend the privileges of the Bank of England in one respect, that is, in agreeing that its notes should be made a legal tender from licensed bankers.

5,536. The effect of such an arrangement would be to reduce the amount of gold in circulation throughout the country; but it should be accompanied with another regulation, that of making the standard of value, and legal tender, to consist in silver. That would be a neces-

sary accompaniment, because there is a great disposition among the community to rush for gold in any state of political agitation, and it is presumed that the same anxiety would not exist with respect to the other metal. In the first place, it is not so portable; and in the next place, it is not so easily kept in safety as gold. Silver is, besides, more readily obtained from foreign countries, and there is also something in taste and fashion:—the public like gold, and they have not the same fancy for silver. If silver were the standard metal, it would, most probably, leave the operations of banking, and the circulation generally, in a more undisturbed state than they can otherwise attain.

Legal tender.
Burgess,
5,537.

5,541.

II. ONE GENERAL BANK OF ISSUE.

Any arrangement under which the Bank of England should become the sole bank of issue throughout the kingdom, and by its branches take up all the business that relates to issue, would have pretty much the same effect, upon a great scale, as taking the silver from the general circulation of the country, and leaving only the gold. All the minor channels of circulation would be impoverished by it, and great difficulty would be encountered in performing small transactions in remote districts. It would be a different matter if branch banks of issue, in connexion with the Bank of England, were conducted by local managers, who should exercise a discretion as to the character and circumstances of the parties to whom the issues were made. But such a system as that would be quite foreign to the present rules of the Bank of England.

One bank
of issue.
Burgess,
5,322.

5,323.

III. PUBLICITY OF ACCOUNTS.

Publicity.
Burgess,
5,497.

With reference to the project of publishing the accounts of the Bank of England, it would be an arrangement in which country bankers would feel little interest. Perhaps, at particular times, if the amount of the gold coming in or going out of the country were ascertained by the country bankers, it would have an influence upon their conduct that might be advantageous to them. The tendency, however, of their opinions, for the most part, is, that the publication of the accounts of the Bank would at times facilitate runs upon that establishment, and be the cause of greater derangement than has yet been experienced. If the private bankers only, to the exclusion of the public, were informed of the principles and practice of the Bank of England, such communications would be valuable to them in the conduct of their business, because there would then be a sort of identity of action between the Bank and the country bankers, which would be salutary to both. But if those communications were diffused through the public, they might cause an alarm, and create a demand for gold for the purpose of hoarding, and not for any mercantile object.

5,498.
5,504.

With respect to the publication of banking accounts which takes place half-yearly in the United States, “we are,” says Mr. Burgess, “in a very different condition from that of America. In that country there prevails almost universally a practical restriction upon cash payment, in the same manner that there does in Scotland, and resulting from the same feeling. I have seen a letter that arrived in this year, written during

5,512.

the panic of December and January which prevailed generally in the Union, describing the unpatriotic conduct, as it was called by the writer, of certain merchants who had demanded payment in cash from the banks, for the purpose of exporting it to England; and the writer, a man of considerable importance in the town in which he lived, said, he hoped those men would be marked in society for such conduct; and he described the terrible effects which were produced by it upon the general affairs of business, in consequence of the bankers being compelled to restrict their usual accommodations to the public. I followed that information up by a question put to Dr. Macauley,¹ who was present when the letter was read: 'Are we to understand,' I said, 'that in America, though you profess to pay your notes in cash, yet that cash is rarely demanded, as would appear from this writer's remarks upon this transaction?' He said, 'It is a generally understood thing that the banks are to be protected from demands in cash, except for the convenience of making fractional payments.'" In Scotland, under the appearance of nominal competition, a real combination has existed during the last seven years against demands for specie, and for the maintenance of an exclusive paper currency.

Publicity.
Burgess,
5,514.

5,514.

IV. VIEWS WITH RESPECT TO A DEMAND OF SECURITY FROM COUNTRY BANKS.

The committee of the country bankers assembled in London, agreed to a resolution some time since, that if

Demand of
security from
country
banks.

¹ A gentleman from Baltimore, conversant with matters of finance and banking, who was lately in England.

Burgess,
5,176 to 5,183.

Demand of
security from
country
banks.
Burgess,
5, 176 to 5, 183.

they were called upon to give security for their issues, they would discontinue them altogether. For this determination they have various reasons; the strongest is, that the lodgment of such security would be affording a preference to one class of creditors over another; whereas the bankers regard their depositors quite as worthy of being guaranteed against failure as the persons who circulate their notes. By giving security in the public stocks, they would moreover lock up their own funds, which would not then be available for the purposes of banking; and they would be forced to encounter a risk by investing property in Government securities, which at times they would not like. Such a measure would have this further effect, that it would create an alarm upon the part of depositors, and induce them to withdraw their money. There are many bankers, the amount of whose deposits is tenfold that of their issues; and they would regard it as an impeachment of their credit, if the Government were to demand from them a security for their issues, which customers do not require for their deposits.

If the country bankers were to withdraw their circulation, it would throw extraordinary impediments in the way of the internal commerce of the kingdom. They should be considered generally as brokers of capital, many of whom must cease to be agents for borrowing and lending of money, if they were to be deprived of the convenience and profit derivable from their issues of notes. The consequence would be, that their banks would be shut up for want of lucrative business, and their customers would be excluded from the advantages which they now enjoy, for no joint-stock or branch

banks could supply their wants in the same manner as private establishments do. The rules by which the branches are governed, would prevent them from lending money on the same easy terms upon which private banks make advances; and joint-stock banks cannot act without the sanction of a board of directors in each particular case that arises.

Demand of security from country bankers.

V. OBJECTIONS TO BRANCH BANKS.

Amongst the country bankers there are many individuals entertaining their own private sentiments, which are opposed to the renewal of the exclusive privileges of the Bank of England; but there is no one leading point, except that of interfering with their own practice in the conduct of their business, to which the country bankers have indicated their general opposition in a formal manner. It is their decided opinion, that the branch banks should be dispensed with, or be employed only for the use of the private bankers in creating and distributing the currency. It would be desirable that they should not discount bills for the public; that they should not advise of the acceptances and notes of merchants and traders for payment, which they do at an under rate of charge; that they should not make payments and receive dividends; and, in short, that they should not interfere so much as they now do with the trade of private bankers. This, it must be admitted, is a view which the private bankers take, with reference to their own interests, of the branch establishments. Certain portions of the public, no doubt, receive advantages from those institutions; but it is conceived, that there are evils attending them which counterbalance those

Objections to branch banks. Burgess, 5,526.

5,527.

5,528.

5,530.

objections to
branch banks.
Burgess,
531.

advantages. If the effect of competition with the country bankers by the Branches were to make it impossible for the former to sustain that competition by the ordinary rate of profits, and to drive them from their ordinary position, the consequences would be exceedingly injurious to the public, because the Branches cannot perform the important offices of a banker with the same efficiency as a man who devotes his whole life to the profession, and is committed to it in character as well as in fortune.

VI. OBJECTIONS TO JOINT-STOCK BANKING COMPANIES.

objections to
joint-stock
banking com-
panies.
Burgess,
216 to 5,224.

There is a great fallacy prevailing respecting the advantages and conduct of joint-stock banks. Many of them acquire business in a mode that is highly objectionable. Instances have occurred in which persons connected with those establishments have tempted old customers from respectable private bankers, upon condition of having transferred to them a number of shares bearing a premium. In one case a sum of 500*l.* was gained by an individual who acted upon that inducement. A private banker of high respectability cannot canvass for business; but the joint-stock institutions have canvassers in all directions; every man who holds a share, or who has a relative holding a share, is a suitor for custom to those establishments.

It must be acknowledged, that some of the joint-stock banks are as safe as private banks, so far as their obligations to the public are concerned; but many of them are certainly upon a particularly insecure foundation. One of the rules generally adopted by those companies

is this:—"Shareholders may have credit or advances on cash accounts to such extent of their stock paid up as the directors think proper." It is very well understood, that that extent includes the whole amount of money paid up upon shares. It is evident that such a rule as this is calculated to bring a class of proprietors forward, who do not purpose to make a moderate profit upon money so invested, but who are desirous of speculating upon borrowed capital; and many examples have occurred of very sanguine individuals without property embarking in those undertakings. Such a rule, moreover, gives a fallacious appearance of capital to a bank, for the whole of it may have been lent to its own subscribers, merely upon the security of their respective shares.

Objections to
joint-stock
banking com-
panies.

Great objections have been raised against *every* description of business being carried on by joint-stock companies; and certainly the trade of banking forms no exception to the general rule in that respect. It is not improbable that the mischief that will result to the public, from the establishment of joint-stock banks, will be greater than that which will accrue from any other joint-stock companies whatever. There is one of these institutions in existence which has expended, in offices only, nearly one half of its whole paid-up capital. Another is known to have already made losses to three or four times the extent of its paid-up capital, although the Act has not been in operation above six years. There is no doubt that the cause out of which several of these establishments have grown, has been the refusal of accommodation from the private bankers in the immediate vicinity to some of the chief instigators

Burgess,
5,235.

5,225.

5,236.

5,240.

Objections to
joint-stock
banking com-
panies.

Burgess,
5,242.

5,246.

of those new companies. It is not a legitimate object, nor is it conformable with any safe principle of banking, for any man, or set of men, to take shares in a joint-stock bank, in order that they might obtain from it loans of money. The directors and a favoured few receive assistance; but the great body of the community are excluded by inflexible rules from that degree of accommodation which the private bankers afford.

5,253.

The lending of money to the productive classes of the country is a matter of great nicety; it requires an extremely delicate discrimination as to the character and circumstances of the party borrowing—a discrimination which the conductors of a public bank, who have not an individual interest in the management, rarely exercise. They are, consequently, liable to much greater losses than private bankers are exposed to, because they have not the necessary vigilance and experience, and are not so constantly animated by a desire for success as a private individual, who looks to the profit of his business as a means for establishing his family in life, and whose character is identified with his conduct. A striking instance lately occurred of this difference in the mode of action between a private and a public bank. The latter lent a sum of 15,000*l.* upon securities, on which the old private banker of the borrower had refused to advance 6000*l.*; the borrower failed, and the joint-stock bank will lose at least 9000*l.* by his bankruptcy. The liability of joint-stock banks to loss is still further increased by their branches, which are managed by agents. An instance might be mentioned of a loss to the amount of 20,000*l.* having been

5,246.

5,254.

incurred, in consequence of the trust placed in a branch agent having been abused.

It is obvious, that in proportion to the smallness of paid-up capital which joint-stock banks require, their dividends will be proportionably large; and that therefore, by calling for a small capital, and paying a large dividend, they exhibit a false appearance of prosperity. The possession of a large amount of paid-up capital, which would give perfect security to their creditors, would compel them to make smaller dividends; and in point of fact, those banks that have the largest paid-up capital command the lowest per-centage of premium upon their shares, as they cannot always use a very large capital to advantage.

Objections to joint-stock banking companies. Burgess, 5,257.

5,258.

5,261.

As the law now stands, if a joint-stock bank were to fail, a creditor would have very great difficulty in recovering the amount of his claim against it. The act precludes him from arresting any of the co-partners until after judgment shall have been obtained against the secretary to the company, and it may be a year or eighteen months before he can reach any of the co-partners. Then, if the partner against whom he proceeds be not a solvent person, he must have recourse to another, and another; and instances have been known in which creditors have been so annoyed by the interposition of technical obstacles, that they have eventually relinquished their claims, and their law expenses besides. A joint-stock bank may therefore be established on the present system, and a great capital called out, all of which might be lent back to the persons that advanced it, upon no other security than that of their shares; and the bank, being left without any

5,228.

5,232.

5,230.

Objections to
joint-stock
banking
companies.

Burgess,
5,234.

5,248.

5,245.

5,316.

5,321.

5,248.

real capital at all, might issue notes and receive deposits, and lend large sums upon buildings, and then fail, and leave its creditors without any means of recovering the debt, except by process of law, which may be protracted for two years. In any state of the law, it might happen that a creditor who sued individual partners might recover, if he were a man of intelligence, activity, and determination, whilst persons that should be wholly unable to go to legal expense could commonly get no payment at all. Some few of these establishments have undoubtedly conducted their business with great prudence; but, generally speaking, the system upon which they are erected is unsound, and dangerous to the community. The failure of any one of them might involve a much greater number of individuals, partners, customers, and connexions, than the failure of a private bank. The principle upon which such companies are formed necessarily exposes all the co-partners to a degree of responsibility, of which many of them may be ignorant, and which may cause the ruin of their fortunes. If the responsibility were limited, and the whole subscribed capital paid up, the evil would be considerably mitigated. But, under any circumstances, if joint-stock banks be much increased, there will undoubtedly be numerous instances of abuse, and of corrupt management. It would be difficult to suggest any alteration in the law, by which they could be universally compelled to conduct their business with security to the public.

CHAPTER XXVIII.

OPINIONS OF MR. EASTHOPE WITH REFERENCE TO THE
EXISTENCE OF ONE BANK OF ISSUE IN LONDON, AND
TO PUBLICITY OF ACCOUNTS.

I. ONE BANK OF ISSUE IN LONDON.

A FREE trade in banking, though not without its evils, would, upon the whole, afford greater securities for a sound currency than the continuance of the Bank upon the present plan of its exclusive privileges. The free system, especially if it were attended with publicity, would afford a safeguard against excessive issues and consequent revulsion, by one checking the other. The return of their paper upon banks dealing under competition would, in this way, effectually protect the public from a redundant circulation. Periods of great distress and convulsion would not occur under a free trade in banking, so often as they have arisen under the monopoly; for this obvious reason, that, assuming the trade to be completely controlled by public observation, it would not be subject to the same kind of jealousy and distrust that must always attend any system which is involved in mystery and concealment.

One bank
of issue.
Easthope,
5,844.

5,850.

5,851.

A difficulty would undoubtedly exist upon one point. It would be part of the duty of those who issue bank-paper in London to manage the foreign exchanges; and the accomplishment of that purpose would be more

5,856.

One bank of
issue.

perplexing if it were to be confided to ten companies than if it were left to a single corporation. There would, however, be probably less necessity to refer to the exchanges, if other checks were interposed. The bankers might agree amongst themselves to take measures for the effectuation of a common object, by interchanging their opinions freely, in the same manner as is now done by the London bankers, amongst whom a strict community of interest is understood to prevail.

Easthope,
5,866.

An intercourse of that description would not necessarily lead to combination; it might produce a sort of *concord* of the banking concerns, but it would not prevent their rivalry. It would comprise the advantages of

5,867.

communication, without the evils of monopoly. There

5,869.

is no reason why the principle of private interest should not have the same influence in banking, when free, as it has in every other trade that is relieved from restrictions. Nor can it be doubted that, if its exclusive privileges were withheld from the Bank of England, a number of institutions would be speedily established in London, with capitals sufficient to render them perfectly solvent, and with a certainty that their affairs would be carried on in a manner conducive to the public benefit.

5,848.

But it must be admitted, that the opinion here expressed, with reference to the establishment of numerous banks of issue in London, is entirely speculative. It cannot be denied that much would depend upon the prudence of the parties conducting them. When there is a rise of prices, and consequently a tendency to enterprise, great temptations are thrown in the way of a banker to augment his circulation. It is unquestionably

5,894.

5,872.

his interest to increase his issues as much as he can, upon good security, in order to make profit consistently with his own safety. A discreet banker would look to his means, and render his accommodation strictly commensurate with his ability. That should be the guide of his transactions. He should not, as the Bank directors do, mix up the character of a legislator (as to the currency) with that of a banker. There is, unquestionably, a certain class of bankers who would look to the principle of their own safety as paramount to all other considerations; but another class may be imagined, who would be governed rather by more direct views of what they would conceive to be their immediate interest. Much, in truth, may be advanced upon both sides of the question. "I am under an impression," says Mr. Easthope, "arising from one view of the case, that ten banks checking each other by the over-issues acting to expedite returns, would tend to prevent repetitions of excess. Then I can imagine also a state of things by which there may not be that union and that concord, and in which different rival issues may for a time be thereby increased, as well as from a variety of other causes, such as every person accustomed to banking must remember in the course of his life. Prudence may be lost sight of by some part of the ten banks, and this of itself may lead to redundancy. Then, again, as it respects a single bank, though it be subject to publicity, yet I can imagine that the persons who are in the management may overlook the rules of discretion, and their responsibility to public opinion for a time; so that I have great difficulty about it; it is quite, in my view,

One bank of
issue.
Easthope,
5,873.

5,877.

5,881.

5,889.

5,894.

One bank of
issue.
Easthope.
5,884.

a speculative question." "I am inclined, on the whole," he states, in another part of his evidence, "to think that more security would be obtained by the division of management, and from the increased publicity that would be gained from ten companies."

II. PUBLICITY OF ACCOUNTS.

Publicity.
Easthope.
5,862.

If the Bank of England were, however, compelled to publish its accounts, it would not be desirable, at least until after the effects of that improvement should have been fairly tried, that there should be any interference with its monopoly of the circulation of the metropolis.

5,863. If the present system of issue were combined with all the advantages of publicity, it would, as being the least change in a case in which considerable doubt and great anxiety must prevail, be candidly pronounced to be the

5,964. most expedient course. No danger could accrue to the Bank from the periodical publication of the amount of bullion in its coffers; the great danger arises, in fact, from secrecy. There is at present just enough of concealment for the purpose of mischief, but not enough for the purpose of good. There is no reason why

5,911. the public should not have positive information, from time to time, as to the amount of the currency. The issues of the Bank should be always open to scrutiny, because they form the basis of the credit of the country.

5,931. First there should be an avowal of the principles upon which the Bank was to be conducted, and then a plain statement of its issues and assets, including the bullion.

5,934. The form and frequency of the publication is a matter of mere detail; but the object should be to remove

completely the concealment which now exists. In Publicity. order to make a trial on those grounds, the charter might be renewed for a short period, the shortest in which the results of the experiment could be fairly proved.

CHAPTER XXIX.

OBSERVATIONS ON THE IMPROVEMENTS SUGGESTED
WITH REFERENCE TO THE TRADE OF BANKING IN
ENGLAND.

THE reader has now before him, in a condensed form, the substance of the whole of the evidence which was taken during the last session of Parliament, by the committee of the House of Commons appointed to inquire into the expediency of renewing the charter of the Bank of England, and into the system on which banks of issue in England and Wales are conducted. In endeavouring to give order and connexion to the broken masses of materials with which I have had to deal, it is possible that I may have overlooked some points, and mis-stated others. If so, I shall most cheerfully submit to correction; but censure I hope I have not deserved. In preparing the preceding pages, I have laboured with the utmost caution to be at once accurate and impartial. I have had no preconceived theory to sustain—no antipathies to gratify. When I first took up the report of the committee, I was indifferent as to the conclusions to which it might lead, and I am still perfectly disinterested as to every question which it involves.

My leading object, in attempting to impart a popular

shape to the matter comprised in that very valuable report, has been to assist in diffusing through the community the practical information which it contains with respect to the general subject of the banking trade. It may be stated, without fear of contradiction, that there is no department of the economical system of this country so little understood by the public at large, as that of the circulation by which its internal transactions are carried on. It wears to them all the appearance of a mystery; and this obscurity is, perhaps, one of the most powerful agents in causing and aggravating those panics, justly defined by Johnson as sudden frights without cause, which at different epochs of our commercial progress have spread disaster through all classes of society. It appeared to me a useful labour, though not unattended with considerable difficulty, to collect together the lights which have been lately thrown upon this subject by intelligent men, practically conversant with all its bearings. And although the statements which they have advanced, tend, in more than one instance, to conclusions that are irreconcilable with each other; it may, nevertheless, eventually happen, that from these very conflicts of opinion the spark of truth shall be elicited, and the line of action be discovered, which is most consonant with the general welfare. It need hardly be observed, that of all the witnesses who appeared before the committee, with, perhaps, one or two exceptions, each had a decided interest of his own to sustain, and a hostile set of notions to combat. A director of the Bank would naturally be favourable rather to the extension than to the restriction of the privileges of that institution.

The London banker would of course be anxious to preserve his business from interference ; while similar motives would operate upon the minds of such of the witnesses as are connected with country banks and joint-stock banking companies. It is not intended by this remark to insinuate that the testimony, as to matters of fact, delivered by any one of the witnesses, ought, therefore, to be considered as justly liable to suspicion ; but it must be admitted to be highly probable, if not, indeed, inevitable, that their opinions should have received a particular bias from their previous habits and personal interests, especially when they had to express them before a tribunal, by whose ultimate decision those interests would be more or less affected. Individuals of high personal character, of remarkable intelligence, and of very extensive experience, are thus ranged on different sides of nearly all the questions at issue ; and if the investigation be still further pursued, little more, perhaps, will be gained than an accession of auxiliaries to each of the classes of opinion already arrayed in collision.

There are, however, some principles that would seem to be pretty nearly settled by the weight of the evidence already adduced. The committee have declared in their report, that the information which they had collected was not so complete as to justify them in giving a decided opinion upon any of the points to which their inquiries were directed. No doubt, each member of the committee, who attended to the evidence, was disposed to entertain some views of his own upon those points, although a majority might not have agreed with respect to them. The minutes taken in secrecy have

been disclosed to the public, manifestly for the purpose of exciting discussion, and maturing opinion out of doors. I trust, therefore, that I may be considered as not wanting in just deference to the committee, but, on the contrary, as rather promoting the object which they had in view in promulgating the evidence, if I indicate such of the principles as appear to me to stand out in relief from the mass of facts and speculations which they have accumulated.

In the first place, it is evident, that even if it were possible, it would not be expedient, to have, in this country, an exclusive metallic currency; the transactions of our commerce of every kind are so immense, that they could not be practically conducted through the sole instrumentality of gold and silver coin. It follows, therefore, that we have no choice as to the adoption of paper money of some description; and that, really, the only question is, whether and how we can obtain a currency by which the public shall be likely to suffer the least detriment.

The general complaint is, that the paper already in circulation has occasionally produced great injury to the community, by the alternations of expansion and contraction which it has undergone. Without desiring to justify those parties who have sometimes tampered with the currency from a regard to their own interests, it may, I think, be stated as a principle, that no circulating medium can exist, whether consisting exclusively of paper or metal, or whether composed of both, which can be protected by any arrangements from variation in value. It is in the very nature of things, and no legislation can prevent it from following the course of trade.

Supply and demand, abundance or scarcity in the articles which form the objects of traffic between man and man, and nation and nation, will produce a perpetual fluctuation in prices, and prices will of necessity always govern the value of the currency.

If, then, we must have paper money, in order to conduct our enormous commerce, and if there be no possible mode of guarding that currency from fluctuation; the next point is, who are the parties by whom it ought to be issued? Some say, by the Government. But the objections in England, especially, to a State paper circulation, are insuperable. We are, and doubtless always shall be as long as our liberties endure, exposed to the risk of popular commotions. They are incidental to our political system; and the apprehension of provoking them to a dangerous extent, especially now that our constitution has been relieved from many of the abuses of antiquity, forms one of the most salutary checks that can be devised for controlling the executive and even the legislative powers of the empire. If any such commotions were to arise, the paper of the Government would be speedily reduced to the condition of the assignats which were at one period issued by the authorities in France, unless, indeed, it were instantly convertible into gold. If it were so convertible, the gold would be rapidly exhausted in perilous times; and in seasons of tranquillity, as the store of bullion could not be ever much under twenty millions sterling, it would be an instrument too powerful to be intrusted to the hands of any ministry, who might convert it into a weapon against the liberties of the people. I suspect, that during the three days in May last, when there was no

responsible government in this country, the public alarm would not have been mitigated by the fact of twenty millions of money, or even half that sum, being locked up in the coffers of the cabinet.

If these objections be unanswerable, then it follows, that the issue of paper must be intrusted to sources altogether distinct from the Government—to individuals, or numbers of individuals associated together for that purpose. Now it is a principle of our circulation already settled, and one that could not be departed from without producing more evil than might perhaps be easily compensated by any other arrangement, that, from whatever source the paper money emanates, it shall be uniformly convertible into gold. But this would be utterly impossible, if every man who had a shop were permitted to issue his own paper. The issuers must be persons of credit, or their paper will not circulate. The facility of conversion presupposes a deposit of gold to some extent in their coffers; and, in order that they may be able to preserve the necessary proportion of a metal in itself unproductive, they must of course be permitted to gain a reasonable profit on their circulation; for, otherwise, they will have no motive to embark in such an undertaking.

Now, if banks of issue were established in all parts of the country, in such numbers as to reduce the circulation of each to a sphere within which only trifling profits could be acquired, the parties would gradually abandon the business, until a number remained adequate to the wants of the community, and at the same time likely to obtain a fair remuneration for their risk and trouble. Thus we arrive at the existence of a

series of monopolies—for such each bank of issue must of necessity be, if it gather to itself the business of the sphere in which it is placed. It may be added, that any interference with that monopoly which is injurious to those banks, must also be injurious to the sections of the community whom they supply with paper; and thus, monopoly, though the term be odious, becomes, with reference to banks of issue, a positive security for the convertibility of paper into gold.

It may have been observed, in the preceding pages, that the most active of those gentlemen who propose to throw the banking trade open to competition in the country by the establishment of joint-stock companies, nevertheless contemplate certain provisions by which each of such establishments should be without a rival company within its own district. This is monopoly, and not free trade; but it would be a necessary monopoly; and what is called free trade, in the full meaning of that justly popular phrase, would be ruinous to the trade of banking, and consequently detrimental to the public.

So, also, with respect to the introduction of numerous banks of issue into the metropolis; it is admitted, that they would be obliged to regulate their issues, as far as possible, by reference to the exchanges; and this they could not do without a combination, or, as Mr. Easthope terms it, a *concordance* of their respective interests. This, again, would end in monopoly; but it could not be otherwise if such banks were to be established; for unless they acted in concord, they never could retain the gold in the country.

The Scotch banks¹ were originally founded upon the

¹ See Appendix K.

principle of free trade : they were allowed an unlimited number of partners, and are still permitted to issue one-pound notes. But what has been the consequence ? Those very establishments, which were intended to be mutual competitors, have combined against a metallic currency. They act upon the principle of monopoly in that respect, and they have so far succeeded in their purpose, that when they are pressed for gold, they are obliged to apply for it to the Bank of England ; they cannot obtain it in Scotland, from which their paper has by concert expelled it.

The chartered banks of America are upon a similar principle.¹ But so difficult has it been found to compel them to retain a sufficient proportion of metal, as a security to the public, that commissioners are appointed to inspect them from time to time, in order to enforce the law. But they have contrived to evade its provisions, by combining to assist each other with a sufficient supply while the commissioners are going round, and thus half a million of coin may do the work of ten times that sum. It is moreover uniformly held out by the bankers as an unpatriotic act in an American citizen to demand coin for paper to any considerable extent, and they would appear to have actually fused this sentiment with public opinion in that country. What is this but monopoly ?

Privilege is in fact, to a certain extent, an indispensable element in the system of banking ; it is the price which the public must pay for gold, simply because the issuer of paper convertible on demand must derive from his profits a sufficient motive for providing the gold, and

¹ See Appendix I.

keeping under his control a certain proportion of that metal, which, while it is in his hands, is so much dead stock. Putting, therefore, aside the prejudices which are usually associated with the idea of monopoly, the next point for consideration is, by what means the public can obtain the best security for the convertibility of the paper currency. It must be premised, that no system can be reduced to practical operation, by which gold shall always be provided to the amount of the whole of the paper in circulation. If the Government had indeed twenty or thirty millions to spare out of the Exchequer, it might invest them in ingots of gold, and bury them in the cellars of the Treasury, by way of safeguard against all possible alarm. But the certain annual loss upon so much unproductive capital would be hardly compensated by the security which it might afford against a mere contingency—a contingency that might not happen for years, and which, even when it did take place, would not be likely to create a degree of injury to the community at all commensurate with the loss previously sustained. Such a measure, even if the state of the taxation allowed it to be carried into effect, and it were not objectionable upon constitutional grounds, would in fact entail upon the country much of the pecuniary evil of a perpetual panic.

If the issuers of paper were compelled to reserve gold to the amount of their whole circulation, no paper would be issued, because it would not be profitable. They generally calculate the proportion of their issues which they will be able to maintain in the hands of the public, and that which they may be required to exchange for gold from day to day. The greater the credit of the

bank, the longer its notes will remain out; and it has been seen that, generally speaking, the country bankers, whose notes are fully accredited in their respective districts, seldom reserve so much as one-third of their circulation in gold. The rule of the Bank of England is to consider one-third as its just proportion at a period of full currency. This proportion is high, but it arises from the liability of the Bank to be called upon to exchange for gold a proportion of the country bank circulation as well as its own.

When I say that the proportion of one-third in gold is high for the Bank of England, I mean that it is more than in ordinary times the public are likely to demand in exchange for its notes. Paper is so much more convenient than metal to all those persons through whose hands large sums are constantly passing, that they prefer it to gold for the transaction of business; and this is the simple solution of the enigma, which many persons cannot understand, when they are told that, if the Bank have eighteen millions of paper in circulation, and only six millions of gold in its vaults, it is still perfectly solvent.

The public have yet to become familiar with this principle of banking—a principle in all respects sound in itself, and consistent with a healthy state of the currency. The true standard of the credit which any bank is entitled to receive, is to be found, not in the amount of its immediate treasure, but in the extent of its capital. If any individual, or set of individuals, willing to undertake the issue of paper money, be possessed of substantial property, whether that property exist in land or houses, or money in the public funds, they might be

safely permitted to embark in such a trade to the extent of their capital, upon the condition, that if they failed to administer their currency in a manner satisfactory to the public, the State might have the power to stop their further progress, and to sell their capital for the payment of their creditors. The successful execution of this general principle would require that some authority, appointed by the Government, should be informed from week to week of the whole state of the concern, in order that its liabilities should be kept within the range of its assets. It would not be difficult to effect an arrangement by which the banker should be at liberty, under official superintendence, to render his assets available, so long as his business should appear to be prudently conducted.

If this principle be admitted as the basis of the banking system in this country, it decides the question of the renewal of the Bank charter. We have seen that the capital of that institution exceeds its liabilities by about nineteen millions sterling; so that it is almost an impossibility that it can ever eventually fail in its engagements. It may be drained of its gold treasure, and it may not be able, under certain supposable circumstances, to resume cash payments for a season; but still there are the nineteen millions of property over and above all its debts, as a guarantee for its solvency to the extent of forty shillings in the pound.

But why give the Bank of England a monopoly, at least to the extent which it now possesses? This question may be answered by another: Why do the legislature—why do the public of this country require a currency resolvable into the most precious of all the

metals? All the other countries in Europe are satisfied with a silver standard; but we have a little commercial pride about us, and we must assert our superiority in wealth over the other nations by requiring our standard to be of gold. In my humble judgment, the ambition of our royal merchants might have been contented with at least a mixed standard of gold and silver; but whether it be of one or the other, or both, no establishment can supply metal on a large scale to the country, which has not a very considerable extent of privilege as to the issue of its notes.

And in the case of the Bank of England, let us inquire to whom, in point of fact, the privilege has been hitherto conceded. Is it to the governor and twenty-four directors? No such thing: it is to the governor and company composing that corporation; and of whom does that corporation consist? In one sense it may be said to consist of the public; for any person who chooses to pay the market-price for a share, when a share is to be sold, may become by purchase a partner in the Bank of England. If this be a monopoly, and a wealthy one, I should say that it is one which ought to be encouraged in a commercial country, if for no other reason than this, that it is open to property, and furnishes, therefore, a strong incentive to the humbler classes of the community to be industrious and frugal, in order that, if their just ambition happened to take that direction, they might one day become members of the richest company in the world. It is, in truth, a mercantile democracy, founded in wealth, and governed by good sense. From the list published last year, it appears that the number of proprietors composing it is not far short of

three thousand one hundred and fifty, of whom the great majority belong to the middle orders of society. There are not, in the whole, more than twenty-two peers in the list ; it includes only four bishops : almost all the remaining proprietors, with the exception of a few public companies and charities, are bankers, merchants, professional men, and persons belonging to the trading classes, of whom nearly seven hundred are widows and spinsters. Of these three thousand one hundred and fifty proprietors, one hundred and eight appear to have purchased their shares within the six months preceding the 17th of April, 1832 ; so that if the Bank be a monopoly, it is one that is constantly changing from one hand to another, and has about it none of the evils of a close corporation.

We have seen the mode in which the governor and directors of this institution are selected ; and however objectionable it may be in point of principle, I hope that in practice it may never be altered. Considering the large number of proprietors who are entitled to vote at elections, that they are dispersed over all parts of the United Kingdom, and that a few of them even are foreigners, it would be utterly impracticable to collect the sense of a real majority of the whole upon any one occasion. Even if that were possible, how are persons living in retirement, and wholly unconnected with the business of London, capable of judging as to the fitness of the persons whom any zealot might propose as candidates for the management of their affairs ? If the elections were conducted upon the pure principle of right, they would of necessity fall into the hands of a few ambitious, perhaps sanguine individuals, who would

undertake the trouble and expense of ascertaining the will of the whole constituency, under the hope that they should be themselves elected. But most certainly persons of that description would be the least fitted of all others, for conducting the delicate operations of the Bank of England. The system which now prevails secures those individuals for the direction, who offer the best guarantee for their conduct in their known experience, their successful management of their own business, their personal abilities, and their virtues both public and private. The existence of such an institution as this, and governed by such men, is among the most splendid ornaments of our country. It tends to sustain a high tone of moral worth in the community of London, and to furnish a powerful check against those practices which, in other nations, have too often sullied the mercantile character.

This noble establishment, independent as it is of the monarch and his ministers, and the aristocracy by which they are surrounded—this institution, essentially belonging to the people, I, for one, would leave as it now stands, with, however, a few alterations, to which no objection ought to be entertained. Assuming a Board of Control¹ to be appointed by Government for the superintendence of the whole banking trade of the country, it appears to me that the state of the Bank should be laid without any reserve before that tribunal every week; that the board should have power to publish, at its own discretion, the accounts of the

¹ The expenses attending such a board might be defrayed out of annual sums, payable to the State by each of the banks in proportion to their circulation, as a consideration for their charters.

Bank periodically, and that a penal rate of interest should be fixed, which the Bank should allow on its notes, if at any time it should be unable for a short interval to pay them in gold or *silver* coin. The board should not be empowered to interfere in any way with the management of the Bank, which should be left entirely to the responsibility of the governor, deputy-governor, and directors.

With respect to the branches of the Bank of England, it appears unquestionable that they are eminently useful to the districts in which they are established ; but they should be restricted to the functions which are exercised by the parent institution. That is to say, they should only supply coin, take deposits without interest, accommodate the local bankers, and discount at a rate higher than that prevailing in the towns in which they are placed. If it be necessary, as I think it is, that the country bankers should still be encouraged to carry on their business, they ought not to be interfered with by the branches to a greater extent than the London bankers are by the Bank of England. It is much more beneficial to the public at large, that they shall be secure of the convenience which country bankers afford, than that a comparatively small number of individuals shall get their bills discounted at a low rate of interest.

The arguments advanced in the preceding chapters, against the expediency of reducing the whole paper currency of the kingdom to that of the Bank of England, appear to me to have an irresistible weight. It seems to be the safest course to adopt the habits which already exist, rather than to attempt to enact new ones

for any part of the country. Local paper, when long accepted, on account of the known responsibility of the issuer, will serve as a check against universal panic, if ever the notes of the Bank of England should be discredited from political causes ; and, on the other hand, those notes will fulfil the same office, whenever the country issues are discredited from causes of a commercial nature. Besides, it is evident that in the agricultural districts especially, the local banks could not afford the accommodation which is required of them, if they had not the power to issue their own paper. It may be true that those banks who lend upon promissory notes and personal character, sometimes act indiscreetly, and sustain losses ; but in the great majority of instances, they prevent the ruin of the farmer by their seasonable assistance ; and it is desirable that such a system should exist in some parts of the country, even though in point of general principle it be objectionable. The exceptions to general rules are sometimes as reasonable and as useful as the rules themselves.

Joint-stock banking companies, it also appears from the evidence, have been highly beneficial in some of the towns in which they are established. There is no reason why they should not be encouraged in the manufacturing districts, to which they are best suited ; but they require to be regulated. Most of the improvements suggested by the Manchester witnesses might be adopted, and care should be taken that they are not multiplied to an extent that might bring them too much into competition with each other.

All joint-stock banks and private banks of issue, as

well as the Bank of England, should be placed under the superintendence of the board already alluded to. Upon that board should be imposed the responsibility of advising the Crown to issue charters; and all such banks, besides satisfying the board as to the certainty of their capital being commensurate with their intended issues, should render it weekly returns of the whole state of their affairs, which returns the board should be at liberty to publish in the *Gazette* in such manner, and at such times, as it should deem expedient.

Publicity is an excellent thing in itself. It is, generally speaking, the most efficient check that can be contrived against corrupt practices in any institution connected with the interests of the people. I am not sure, however, that in banking affairs it would be always discreet to tell the world how you are going on. If you make a shew of prosperity, they will suspect it to be fallacious; if you confine yourself to a simple dry statement of figures, they will look upon it as too cautious—and caution is not distant from fear: if your prospects look downward, your credit is gone. An unbending legislative direction for continuous publicity in banking affairs at this moment, would appear to me the very reverse of practical wisdom. The public are certainly becoming every day more enlightened, but they do not yet understand even the alphabet of the currency, not to speak of all the rules that enter into its system. Obtain from all banks of issue a complete knowledge of their affairs: so far as they are concerned, the transmission of that information to an official quarter will have all the effect of publicity. But avoid the dangers to which inevitable publicity would be liable, by con-

fiding to responsible officers a discretion on the subject. It is obvious that seasons might come when the same degree of publicity would be fraught with extreme peril to the currency, which at another time might pass altogether unnoticed.

To these alterations one more should be added, namely, that the Bank of England paper should be made a legal tender from all debtors but the Bank itself. This measure would be a decided relief to banks of issue in the country, and it would enable the directors of the Bank of England to manage their paper currency with more confidence and liberality, as they would then know with a tolerable degree of certainty the amount of bullion which it would be necessary for them at all times to reserve. So long as the country banker is liable to pay in gold, the Bank directors must provide for his payments as well as their own; and this circumstance imposes upon them a probably needless burden of bullion, which might otherwise be beneficially employed.

Some of the witnesses appear exceedingly anxious for the legalisation of charters upon the principle of limited responsibility. Where rail-roads are to be constructed, bridges thrown over rivers, steam-boats to be multiplied, universities to be founded, or any other great public objects are to be accomplished, the profitable character of which seems doubtful, the principle of limited responsibility is eminently conducive to the public benefit. But it should never be introduced into the banking system, so far as the creation of currency is concerned. If men with sufficient capitals are already found in abundance disposed to embark in that

trade at the risk of their whole fortunes, there is no reason why speculators should be allowed to establish banks of issue upon a less responsible system. It would be unjust towards the Bank of England, whose whole capital is answerable to its creditors; it would be still more unjust to the private bankers in every part of the country, whose entire property is already pledged to their depositors and to those who hold their notes.

These remarks, however, do not apply to banks of deposit circulating Bank of England paper exclusively, and not licensed to manufacture notes of their own. There can be no solid objection to the formation of joint-stock banking companies with limited responsibility, provided that they do not create any portion of the currency. If they confine themselves to the circulation of notes of the Bank of England, they can only procure those notes by the outlay of real capital; and no state of prices can render their operations mischievous to the community, because they must act with a currency already in existence. I can conceive that in South Wales, for instance, where there is at present but a very small amount of circulation compared with that which is required for the agricultural transactions of that part of the principality, such a bank, if it could be constituted with a sufficient paid-up capital, would unquestionably be productive of the most beneficial consequences.

But as to country banks empowered to issue paper, their responsibility should remain, as it now is, altogether unlimited. At the same time, whether they consist of only one individual or a thousand partners, they

ought all, undoubtedly, to have equal facilities in the way of making their paper payable in London, and of drawing upon agents there for any sums they may require. Under the new system, their notes should, as they might safely, be receivable in revenue payments; for it would be exceedingly unjust, under such a system, to draw any distinction between the notes of country banks and those of the Bank of England. If the board, by granting a charter to a private or joint-stock bank, stamp its circulation as a safe one for the public, it must be equally safe for the Exchequer. The dividends might further, as has been suggested, be rendered payable every six weeks, by dividing the stocks into two classes for that purpose. If these arrangements were made, they would, in all probability, afford to the country a secure and an abundant currency, which no convulsion short of a total dissolution of society could materially injure.

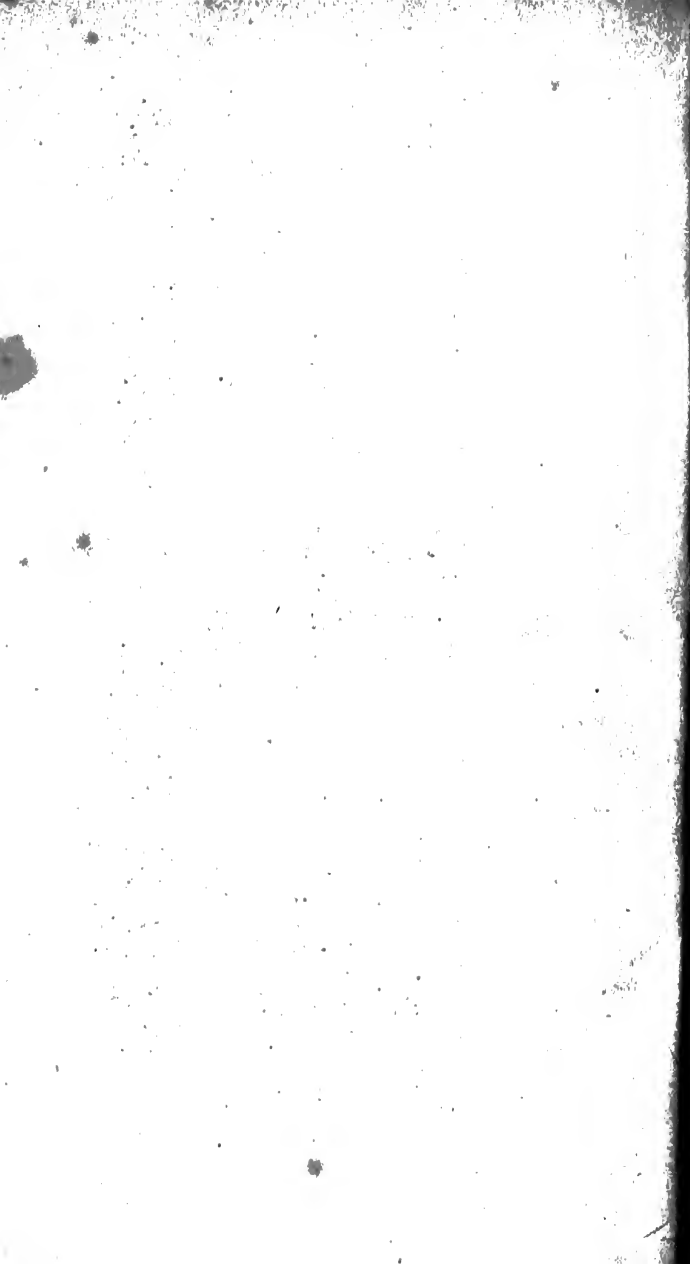
It must be added, that the general interest of the country absolutely requires that these, or some other final regulations, should be effected as speedily as may be consistent with a due consideration of the whole subject. It is not for the good of trade, whether foreign or domestic, that the parties intrusted with the creation of the paper currency should be left much longer in uncertainty, as to the conditions upon which they are in future to conduct their establishments. No temporary expedient should be resorted to, since any such measure would tend only to prolong the evil which already exists, and which, I understand, is felt throughout every branch of our industry. As to a brief renewal of the Bank charter, for the purpose of affording time for further investigation, I trust that no proposition of that kind will be made: if it be, I very

much doubt whether it ought to be accepted. The income derived by the Bank from their circulation forms but a secondary portion of their profits ; and though considerable in itself, it might be advisable for them to abandon the issue of notes altogether, rather than accept a mere provisional grant of privilege, which ought not to be conceded at all, unless it be, as I think it is, indispensable to the commercial convenience and enterprise of the community. As to the country bankers, their business will be wholly ruined unless the legislature forthwith replace them in the position, from which they have been for many years declining.

In the views which I have taken of this question, I have endeavoured to keep my mind free from theories, and to adhere strictly to what is practicable, and likely to meet the approbation of reasonable men. We cannot always have that which is absolutely the best. Optimism will not do in the common affairs of life. Even when we clearly see that which is apparently the most perfect, we must still content ourselves with following that which the complication of many interests will admit of, as the least objectionable in the way of compromise. We may, perhaps, in time arrive at the great desideratum of currency — a single bank of issue for the United Kingdom. But before that point can be attained, the community must be well informed as to the principles upon which paper circulation is founded, and they must especially be accustomed, under a discreet system of publicity, to acts of self-restraint, emanating from the certainty and exactness of their knowledge, and from an habitual firmness of commercial confidence which no political changes can disturb.

PART II.

SUMMARY OF LAW.



SUMMARY OF LAW.

CHAPTER I.

CAPITAL STOCK AND CONSTITUTION OF THE BANK OF ENGLAND.

IN consideration of a loan of 1,200,000*l.* contributed in shares by various persons, foreigners and natives, an annuity of 100,000*l.* was granted¹ by parliament, to be applied to the use of the subscribers. Their Majesties were authorised² to prescribe rules for rendering transferable the stock thus created, and to incorporate the contributors by the name of "The Governor and Company of the Bank of England," to whom powers were given to purchase and retain lands, rents, tenements, and hereditaments of any description, and to aliene the same. No person or body politic or corporate was allowed to subscribe on the whole more than 20,000*l.*³ The Bank were allowed to issue notes⁴ to the amount of the stock thus lent to Government; ⁵ they were forbidden to trade with their stock in goods, wares, or merchandises; ⁶ but they were authorised to

5 and 6
W. & M.
c. 20.

¹ s. 19. ² s. 20. ³ s. 23. ⁴ s. 29. ⁵ s. 26. ⁶ s. 27.

5 and 6
V. & M. c. 20.

deal in bills of exchange, bullion, gold, or silver; to sell any goods which might *bonâ fide* be deposited with them by way of pledge for money lent, and which should not have been redeemed within three months after the time agreed upon, and also to sell the produce of any lands belonging to the corporation.¹ They were further prohibited from purchasing crown lands, and from lending money to Government without the authority of parliament.² If any sum were to be advanced without such authority, the governor, deputy-governor, directors, managers, assistants, or other members of the corporation agreeing to the same, were each of them to forfeit treble the amount of such sum for every such offence. Monies payable under the Act were exempted from taxes;³ and the privileges thus conceded were rendered redeemable upon a year's notice, after the 1st of August, 1705.⁴

8 and 9
W. & M.
c. 20.

The capital stock of the corporation was soon after augmented; and it was enacted,⁵ that during its continuance "no *other* bank, or *any* corporation, society, fellowship, company, or constitution, in the nature of a bank, should be erected or established, permitted, suffered, countenanced, or allowed by act of parliament within this kingdom." The Bank were authorised to issue notes payable on demand to the extent of their whole capital; in default of payment, the notes issued against the *new* capital were to be paid at the exchequer, out of the first monies payable to the Bank (the annuity of 100,000*l.* excepted).⁶ Regulations were made for registering transfers of stock, and for

¹ s. 28. ² s. 30. ³ s. 35. ⁴ s. 21. ⁵ 8 & 9 W. & M. s. 28. ⁶ s. 30.

carrying them into effect; ¹ for making dividends on the stock payable every four months; ² and for causing eight of the twenty-four directors to go out of the management every year.³

^{8 and 9}
W. III. c. 20.

There are provisions in this, and all the subsequent acts, under the authority of which the capital stock of the Bank was from time to time increased, for incorporating the new with the old subscribers; for exempting the stock of the Bank, and the annuities payable upon it, from taxes of every description; for protecting such stock from foreign attachments, according to the custom of London or otherwise; for rendering such stock, as well as the interest thereupon, personal, and not real estate, to go to the executor, and not to the heir; and for postponing to the different periods already⁴ mentioned the cessation of the corporation. In several of the statutes it is also provided, that no act of the corporation should subject the share of any individual member to forfeiture, and that no proprietor should be adjudged a bankrupt by reason of his share in the capital stock of the Bank.

The time for making dividends was altered by 9 W. III. c. 3, s. 4, from four to six months; and subsequently, by 12 and 13 W. III. c. 12, s. 14, the dividends were directed to be paid "at such times only as shall be ordered by a general court of the governor and company."

^{12 and 13}
W. III. c. 12.

After the enactment of 8 and 9 W. III. c. 6, it became a frequent practice with the Government to issue exchequer bills; and from time to time arrangements

¹ s. 34.

² s. 48.

³ s. 51, 52.

⁴ *Ante*, p. 2.

were made with the Bank for the purpose of sustaining the credit of that species of paper while in circulation; and when they were cancelled, the amount of them was usually converted into a debt from the State to the Bank, and to an increase of its capital, for which additional annuities were granted to the Bank by parliament. A transaction of this kind was the foundation of 7 Ann, c. 7. 7 Ann, c. 7, by which, instead of the very comprehensive clause contained in 8 and 9 W. & M. c. 20, it was enacted, that during the continuance of the corporation it should not be lawful for any body politic or corporate whatever, erected or to be erected (other than the Bank of England), or "for any other persons whatsoever, united or to be united in covenants or partnership, *exceeding the number of six persons*, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money, on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof."¹ Express provision was made² for the application of the income and profits of the Bank, after payment of all expenses, to the uses of all the proprietors.

9 Ann, c. 7. By 9 Ann, c. 7, the governor, deputy-governor, and directors of the Bank are disabled,³ during the period for which they are elected, from being chosen as directors of the East India Company; and directors of the East India Company are in like manner incapacitated, during the period for which they are chosen, from being elected governor, deputy-governor, or directors of the Bank of England. It was, however,

¹ s. 61.² s. 63.³ s. 8, 11.

provided¹ by 3 Geo. I. c. 8, that no member of the latter ^{3 Geo. I. c. 8.} corporation should be disabled, by reason of any thing contained in that act, from being a member of parliament. The Bank were authorised² to appoint a chief cashier and an accountant-general; and it was enacted,³ that any vote or resolution of the House of Commons, signified by the Speaker in writing, and delivered at the public office of the company, should be adjudged a sufficient notice within the meaning of the Act for terminating the corporation, after the time stipulated for such notice to be given. By this act, as well as by 1 Geo. II. ^{1 Geo. II. st. 2. c. 8.} st. 2, c. 8, and 2 Geo. II. c. 3, the privileges of the Bank were further confirmed; and by 24 Geo. II. c. 4, ^{2 Geo. II. c. 3. 24 Geo. II. c. 4.} it was enacted,⁴ that the governor and company assembled in general court, might proceed to business without administering the oath and affirmation, and subscribing the declaration appointed by their charter, unless required thereto by nine or more of the proprietors present, and qualified to vote. It was further enacted,⁵ that the Court of Directors, when assembled in pursuance of summons, and informed that the governor or deputy-governor could not attend, or if either of those officers were absent at the usual hour of proceeding to business, might elect a chairman from amongst themselves, who should also be authorised to preside at a general Court of Proprietors, if any such court were at the same time summoned to meet.

The Bank were exempted by 13 Geo. III. c. 32, from ^{13 Geo. III. c. 32.} certain penalties enacted by 5 and 6 W. & M. c. 10, on advancing money to pay bills of exchange accepted

¹ s. 43.² s. 50.³ s. 55.⁴ s. 21.⁵ s. 22.

37 Geo. III.
c. 28.

39 and 40
Geo. III. c. 28.

48 Geo. III.
c. 4.

56 Geo. III.
c. 96.

59 Geo. III.
c. 49.

by the treasury, but not specifically lent on the revenue. Any doubts which existed as to their authority to issue promissory notes payable to bearer under five pounds, were removed by 37 Geo. III. c. 28, from which it appears that notes of that description were then in circulation. Soon after this, the first act for the restriction of cash payments, 37 Geo. III. c. 45, was passed, which was amended and continued by several other acts. By 39 and 40 Geo. III. c. 28, the exclusive privileges of the Bank were continued ¹ until twelve months' notice after the 1st of August, 1833.

Under the authority of 48 Geo. III. c. 4, the Bank were directed to lay annually before parliament an account of the unclaimed dividends upon account of the national debt, and certain rates of allowance for the management of that debt were arranged. By 56 Geo. III. c. 96, their capital stock was settled at the sum of 14,553,000*l.* and it was enacted,² that until repayment of a sum of three millions advanced to Government under that act, together with all interest to become due thereon, the promissory notes of the Bank expressed to be payable to bearer on demand, should be received in payment of all monies payable for or in respect of any part of the public revenue, fractional parts under twenty shillings only excepted. The acts restricting cash payments by the Bank were continued by 59 Geo. III. c. 49, until the 1st of May 1823, which also permits the exportation of gold and silver. Gold coin is now the only legal tender,³ and no tender of silver coin is legal beyond the amount of forty shillings.⁴

¹ Except as afterwards altered by 7 Geo. IV. c. 46.

² s. 4.

³ 56 Geo. III. c. 68, s. 2.

⁴ s. 17.

By 59 Geo. III. c. 76, it is enacted, that the Bank shall not in future make advances to Government upon the credit of exchequer or treasury bills, or other Government securities, without the express authority of parliament.¹ Whenever it may be deemed necessary for the public service to apply to the Bank to make any advance so authorised, such application is to be made in writing by the First Lord of the Treasury, or the Chancellor of the Exchequer, to the governor and deputy-governor, to be by them laid before the Court of Directors; and a copy of all such applications made in the course of every year ending the 5th of January, together with a copy of the minutes of the proceedings of the Court of Directors on every such application, and the answer of the Court thereto, are to be laid before both houses of parliament by the proper officer of the company, within fourteen days after the 5th of January in each year, if parliament shall then be sitting, or otherwise within fourteen days after the then next sitting of parliament.² But this regulation is not intended to prevent the Bank from purchasing exchequer or treasury bills, or advancing money on the credit of exchequer bills issued by the Treasury under 57 Geo. 3, c. 48, for making good the deficiency of the consolidated fund, at the close of each quarter.³ The Bank are also authorised to exchange exchequer or treasury bills in their hands, when in course of payment, for others granted towards the supplies of the year upon which such bills so in course of payment shall have been charged.⁴ The Bank are directed by

59 Geo. III.
c. 76.

¹ s. 1.

² s. 2.

³ s. 3.

⁴ s. 4.

59 Geo. III. this act¹ to lay before parliament a yearly account of
c. 76. all exchequer bills, treasury bills, and other Government securities which they shall have purchased, or on which advances shall have been made to Government.

¹ s. 5.

CHAPTER II.

TRANSFERS OF STOCK IN THE BOOKS OF THE BANK
OF ENGLAND — EFFECT OF BILLS OF LADING, &c.
PLEGDED TO THE BANK — ESTABLISHMENT OF BRANCH
BANKS.

I. TRANSFERS OF STOCK.

ANY of his majesty's courts of equity are empowered, by 39 and 40 Geo. III. c. 36, before or upon hearing any cause depending therein, to order the Governor and Company of the Bank to suffer a transfer of stock standing in their books to be made, or to pay any accrued or accruing dividends thereon, belonging to or standing in the names of any party to a suit, as such courts may deem just; or to issue an injunction to restrain them from suffering any transfer of such stock, or from paying any dividends or interest accruing or accrued thereon, although such Governor and Company are not partners to the suit in which such decree or order shall be made. Such courts, however, are to be previously satisfied, by the certificate of the accountant of the Corporation, that the stock required to be transferred is standing in their books, in the name of the person required to transfer the same, or of the person of whom he is the legal representative. After due service of a short order upon the Governor and Company, or their proper officer, which shall contain no recital of the pleadings, or other matter than the title

Transfers of
stock.
39 and 40
Geo. III. c. 36.

39 and 40
Geo.III. c. 36.

of the cause, and the ordering part of such decree or order which respects the Governor and Company, like process shall issue to enforce such order or decree as to enforce them against any party to a suit depending in such court.¹

Upon request in writing, signed by the clerk in court (or other officer answering thereunto) and the solicitor concerned in the cause for the party applying, which shall state the cause, and for what parties they are concerned, the Governor and Company are to deliver, or cause to be delivered, to the said clerk in court, or other officer and solicitor, or one of them, a certificate signed by their accountant, stating the amount of such stocks or dividends, and in whose name such stock is standing in their books, and, if it be particularly required, but not otherwise, when such stock, or any part thereof, was transferred, and by whom. But nothing contained in the act is to extend to any case where any further discovery is wanted than what is before expressly mentioned, nor to any case where the Governor and Company claim any interest in or lien upon the said fund. In such cases it will be necessary to make them a party to such suit as if the act had never been made. If any special matter arise, which, in the opinion of the Governor and Company, may affect their interests, or which might be objected against suffering such transfer of stock or payment of dividends, they are entitled to state such matter to the court by motion or petition in such suit; and execution of process, to compel such transfer or payment, is to be suspended until final order shall be made thereon.²

¹ s. 1.

² s. 2.

II. BILLS OF LADING, &c.

Any person intrusted with and in possession of any bill of lading, India warrant, dock warrant, warehouse-keeper's certificate, wharfinger's certificate, warrant, or order for delivery of goods, is to be deemed and taken to be the true owner of the goods, wares, and merchandise described and mentioned in the said several documents, or either of them, so far as to give validity to any contract or agreement hereafter to be made or entered into by such person with the Governor and Company of the Bank of England, *for the deposit or pledge thereof*, or any part thereof, as a security for any money or negotiable instrument advanced by the Bank upon the faith of such several documents or either of them; *provided* that the Bank shall not have notice by such documents or either of them, or otherwise, that such person so intrusted is not the actual and *bond fide* owner of such goods, wares, or merchandise, so deposited or pledged, any law, usage, or custom to the contrary thereof in any wise notwithstanding.

Bills of
lading, &c.
6 Geo. IV.
c. 94.

III. ESTABLISHMENT OF BRANCH BANKS.

In order to prevent any doubts that might arise, whether the Governor and Company of the Bank of England, under their charter, and the several acts of parliament which have been made and passed in relation to their affairs, could lawfully carry on the trade of banking otherwise than under the immediate order, management, and direction of the Court of Directors, it was enacted that the Governor and Company might authorise and empower any committee or agent to carry

Branch
banks.
7 Geo. IV.
c. 46.

7Geo.1V.c.46. on the trade of banking for and on their behalf at any place in England, and for that purpose to invest such committee or agent with such powers of management and superintendence, and such authority to appoint cashiers and other officers and servants, as may be necessary or convenient for carrying on such trade. They are likewise empowered to issue to such committee or agent, cashier, or other officer or servant, cash, bills of exchange, bank post-bills, bank-notes, promissory notes, and other securities for payment of money. But all such acts of the Governor and Company shall be done in such manner as may be appointed by any by-laws, constitutions, orders, rules, and directions, from time to time to be made by the general court of the Governor and Company in that behalf, such by-laws not being repugnant to the laws of England. And in all cases where such by-laws, &c. shall be wanting, they are to be supplied in such manner as the governor, deputy-governor, and directors, or the major part of them assembled, whereof the governor or deputy-governor is always to be one, may direct, (such directions not being repugnant to the laws of England,) notwithstanding any thing in the said charter or acts of parliament, or other law, usage, matter, or thing to the contrary. It is provided, however, that in any place where the trade of banking shall be carried on on behalf of the Governor and Company, any promissory note issued on their account in such place shall be made payable in coin in such place as well as in London.¹

¹ s. 15.

CHAPTER III.

SUPPRESSION OF PROMISSORY NOTES UNDER FIVE
POUNDS—COMPOSITION BY THE BANK FOR STAMP
DUTIES ON NOTES.

I. SUPPRESSION OF SMALL NOTES.

IF any body politic or corporate, or any person or persons, shall, from and after the passing of this act (22d March, 1826), and before the 5th day of April, 1829, make, sign, issue, or re-issue, in England, any promissory note payable on demand to the bearer thereof, for any sum of money less than the sum of five pounds, except such promissory note of any banker or bankers, or banking companies, or person or persons duly licensed in that behalf, which shall have been duly stamped before the 5th of February, 1826; and except such promissory note of the Governor and Company of the Bank of England as shall have been or shall be made out and bear date before the 10th of October, 1826; or if any body politic, &c. shall, after the said 5th of April, 1829, make, sign, issue, or re-issue, in England, any promissory note in writing, payable on demand to the bearer thereof, for any sum of money less than five pounds, then and in either of such cases every such body politic, &c., so making, &c., except as aforesaid, shall, for every such note so made, &c., forfeit the sum of twenty pounds.¹

Suppression
of small
notes.
7 Geo. IV.
c. 6.

¹ s. 3.

7 Geo. IV. c. 6. Every promissory note payable to bearer on demand, for any sum of money under twenty pounds, which shall be made and issued after the 5th of April, 1829, shall be made payable at the bank or place where issued; provided that nothing herein contained shall extend to prevent any such promissory note from being made payable at several places, if one of such places shall be the bank or place where the same shall be so issued.¹

9 Geo. IV. c. 65. The negotiation of promissory notes in England under five pounds, issued in Scotland or Ireland, is prohibited by 9 Geo. IV. c. 65.

II. COMPOSITION BY THE BANK FOR STAMP DUTIES.

Composition
for stamps.
55 Geo. III.
c. 184.

All promissory notes and bank post-bills issued by the Bank of England, are exempted from all the duties granted by 55 Geo. III. c. 184; and they may re-issue any of their notes, after payment thereof, as often as they shall think fit.² They are directed to deliver to the commissioners of stamps, on the first day of May in every year, whilst the present stamp duties shall remain in force, a just and true account, verified by the oath of their chief accountant, of the amount or value of all their promissory notes and bank post-bills in circulation, on some given day in every week, for the space of three years preceding the sixth day of April, in the year in which the account shall be delivered, together with the average amount or value thereof, according to such account. They are to pay into the hands of the receiver-general, as a composition for the

¹ s. 2.

² s. 20.

duties which would otherwise have been payable for their promissory notes and bank post-bills issued within the year, reckoning from the fifth day of April preceding the delivery of the said account, the sum of three thousand five hundred pounds for every million, and after that rate for half a million, but not for a less sum than half a million of the said average amount or value of their notes and bank post-bills in circulation. One-half part of the sum so to be ascertained for each year's composition is to be paid on the first day of October, and the other half on the first day of April next after the delivery of such account.¹

55 Geo. III.
c. 184.

¹ s. 21.

CHAPTER IV.

PRIVATE BANKS OF ISSUE—LICENSES FOR THE ISSUE
AND RE-ISSUE OF PROMISSORY NOTES DULY STAMPED
—LICENSES FOR THE ISSUE OF PROMISSORY NOTES
ON UNSTAMPED PAPER—DRAFTS ON BANKS.

I. LICENSES FOR STAMPED NOTES.

licenses for
tamped
notes.
55 Geo. III.
c. 184.

WITH the exception of the Bank of England, no other banker or person is permitted to issue any promissory notes for money payable to bearer on demand, charged by the act with a duty, and allowed to be re-issued, without taking out a yearly license for that purpose. Such license may be granted by two or more of the commissioners of stamps, or by some person authorised in that behalf by the commissioners, or the major part of them, on payment of the duty charged thereon in the schedule of the act. A separate and distinct license is to be taken out for every town or place where any such promissory notes shall be issued ; and every such license shall specify the proper name and place of abode of the person, or the proper name and description of any body corporate, to whom the same shall be granted, and also the name of the town or place where, and the name of the bank, as well as the partnership, or other name, style, or firm, under which such notes are to be issued. Where any such license shall be granted to persons in partnership, the same shall specify and set forth the names and places of abode of all the persons

concerned in the partnership, whether all their names shall appear on the promissory notes to be issued by them or not; and in default thereof is absolutely void.

Licenses for stamped notes.
55 Geo. III. c. 184.

Every such license granted between the tenth day of October and the eleventh day of November in any year, is to be dated on the eleventh day of October; and every such license granted at any other time is to be dated on the day on which it shall be granted; and every such license respectively shall continue in force from the day of the date thereof, until the tenth day of October following, both inclusive.¹ Where any banker or other person, however, applying for a license under the act, would, under the act of 48 Geo. III.² have been entitled to have two or more towns or places in England included in one license, if the act 55 Geo. III. c. 184 had not been made, such banker or other person is entitled to the like privilege under 55 Geo. III. c. 184.³ The banker or other person applying for any such license, is to produce and leave with the proper officer a specimen of the promissory notes proposed to be issued by him, to the intent that the license may be framed accordingly. And if any banker or other person (except the Governor and Company of the Bank of England) shall issue or cause to be issued by any agent, any promissory note for money payable to bearer on demand, charged by the act with duty, and allowed to

¹ s. 24.

² According to 48 Geo. III. c. 149, s. 17, a separate and distinct license was to be taken out for every town or place where notes were to be issued, with the exception that one yearly license was to be sufficient for all towns or places where the party licensed had established branch banks previously to the passing of that act. Every such town or place was to be notified to the stamp office, in order that it should be specified in the first license granted under that statute, and an affidavit of the fact was directed to be transmitted to the stamp office, at the time of applying for the license.

³ s. 26.

Licenses for
stamped
notes.
55 Geo. III.
c.184.

be re-issued, without being duly licensed so to do, or at any town or place, or under any other name, style, or firm, than shall be specified in his license, the banker or other person so offending, shall, for every such offence, forfeit the sum of one hundred pounds.¹ Where any such license shall be granted to any persons in partnership, the same is to continue in force for the issuing of promissory notes duly stamped, under the name, style, or firm therein specified, until the tenth day of October inclusive following the date thereof, notwithstanding any alteration in the partnership.²

Any banker or other person who shall have made and issued any promissory notes for the payment to bearer on demand, of any sum of money not exceeding one hundred pounds each, duly stamped according to the directions of the act, may re-issue the same from time to time, after payment thereof, as often as he shall think fit, without being liable to pay any further duty in respect thereof. All promissory notes so re-issued are to be deemed as valid to all intents and purposes as they were upon the first issuing thereof.³ No promissory note for the payment to bearer on demand, of any sum of money not exceeding one hundred pounds, which shall have been made and issued by any bankers or other persons in partnership, and for which the proper stamp duty shall have been once paid, shall be deemed liable to any further duty, although the same shall have been re-issued as the note of some only of the persons who originally made and issued the same, or as the note of any one or more of the persons who originally made and issued the same, and any other person or

¹ s. 27.

² s. 28.

³ s. 14.

persons in partnership with him jointly; nor although such note, if made payable at any other than the place where drawn, shall be re-issued with any alteration therein only of the house or place at which the same shall have been at first made payable.¹ It is not lawful for a banker or any other person to issue any promissory note for the payment of money to bearer on demand, liable to any of the duties imposed by the act, with the date *printed* therein, under a penalty of fifty pounds for every promissory note so issued.²

Licenses for stamped notes.

II. LICENSES FOR THE ISSUE OF NOTES ON UNSTAMPED PAPER.

All persons carrying on the business of banking in England, (except within the city of London or within three miles thereof), who are duly licensed for that purpose, may issue, on unstamped paper, promissory notes for any sum of money amounting to five pounds or upwards, expressed to be payable to bearer on demand, or to order at any period not exceeding seven days after sight. They may also draw and issue, on unstamped paper, bills of exchange, expressed to be payable to order on demand, at any period not exceeding seven days after sight, or twenty-one days after date. But such bills of exchange must be drawn upon a banker in London, Westminster, or Southwark, or at a town or place where the drawer is licensed, upon himself or his copartners, payable at any other town or place where he is also licensed to issue such paper.³

Licenses for unstamped notes.
9 Geo. IV. c. 23.
Certain bankers may issue unstamped promissory notes, and bills of exchange, subject to the regulations herein mentioned.

A separate license must be taken out in respect of every town or place for this purpose; but no person

¹ s. 15.

² s. 18.

³ s. 1.

Licenses for unstamped notes. Separate license to be taken out for every place where such notes or bills are issued; but not to exceed four licenses for any number of such places. Regulations respecting licenses.

need take out more than four licenses in all for any number of towns or places in England. A banker after having obtained three distinct licenses for three towns or places, may have as many more as he chooses included in a fourth license.¹ The license must set forth all the particulars already required by law to be specified in licenses taken out by persons issuing promissory notes which are payable on demand, and allowed to be re-issued. If granted between the tenth of October and the eleventh of November, it is to be dated on the eleventh of October; if granted at any other time, it is to bear the true date. Every license, at whatever period it may be granted, continues in force from the day of the date thereof until the tenth of October then next following, (both inclusive), notwithstanding any alteration which may have taken place in the mean time in any copartnership of persons to whom the same shall have been granted.²

Commissioners of stamps to grant licenses. Licenses already taken out may be cancelled, and new licenses granted in lieu thereof.

Two or more of the commissioners of stamps are authorised to grant the licenses, which are charged with a duty of thirty pounds each.³ If a banker have already obtained a license for issuing on stamped paper, and be desirous during its continuance to take out a license to issue on unstamped paper, the commissioners will cancel the former license, and grant one under the authority of the 9th Geo. IV. c. 23, which license will also authorise him to continue issuing and re-issuing all his stamped promissory notes payable to bearer on demand, which he might have lawfully issued and re-issued under his previous license.⁴ But where a license is

¹ s. 3.

² s. 4.

³ s. 2.

⁴ s. 5. The 16th section of the act provides, that, if any banker who has taken out a license for unstamped paper, shall have in his possession stamps

taken out, in the first instance, for the issue of unstamped notes, the banker must adhere to that species of paper so long as his license continues; and he cannot issue, for the first time, on stamped paper during that period.¹

Licenses for unstamped notes. Bankers licensed under the act not to issue stamped paper for the first time.

Before any person can obtain a license for issuing on unstamped paper, he must give security by bond that he shall from time to time enter, or cause to be entered, in a book or books kept for that purpose,

Bankers, before being licensed, to give security by bond for the due performance of the conditions herein specified.

1st, An account of all unstamped promissory notes and bills of exchange which he shall issue or draw, specifying the amount or value thereof respectively, and the several dates of the issuing thereof.

2d, A similar account of all such promissory notes as, having been issued, shall have been subsequently cancelled, and the dates of the cancelling thereof.

3d, And a similar account of all such bills of exchange as shall have been paid, and the dates of the payment thereof.

4th, Also that he shall from time to time, when thereunto requested, produce such accounts to, and permit them to be inspected by, the commissioners of stamps, or any officer of stamps appointed under their hands and seals for that purpose.

5th, That he shall deliver to the commissioners half yearly, that is to say, within fourteen days after the first

which shall be rendered useless in consequence of his electing to issue unstamped paper, the commissioners shall cancel and allow such stamps, and repay the amount thereof in money, deducting one pound ten shillings per cent, provided proof be made on oath or affirmation, to their satisfaction, that such stamps have not been issued; and *provided application be made for such allowance within six calendar months next after the passing the act.* As no application of this kind can now be made under the act, it will be necessary for those persons who have such stamps to continue them in use in the manner above mentioned. ¹ s. 6.

Licenses for
unstamped
notes.

of January and the first of July in every year, a just and true account in writing, verified upon oath or affirmation, (which any justice of the peace is empowered by the act to administer), to the best of his knowledge and belief, and of his cashier, accountant, or chief clerk, or of such of them as the commissioners shall require, of the amount or value of all unstamped paper issued by him under the provisions of that or of any former act, in circulation, on a given day; that is to say, on Saturday in every week, for the space of half a year prior to the half-yearly day immediately preceding the delivery of such account, together with the average amount or value of such notes and bills so in circulation, according to such account.

6th, And, finally, that he shall pay, or cause to be paid, to the receiver-general of stamp duties in Great Britain, or to some other person duly authorised by the commissioners of stamps to receive the same, as a composition for the duties which would otherwise have been payable for such promissory notes and bills of exchange issued or in circulation during such half year, the sum of three shillings and sixpence for every one hundred pounds, of the said average amount or value of such notes and bills in circulation, according to the true intent and meaning of the act.¹

Period for
which notes
and bills are
deemed to be
in circulation.

Every unstamped promissory note payable to bearer on demand, issued under the provisions of the act, is, for the purpose of payment of duty, deemed to be in circulation from the day of the issuing to the day of the cancelling thereof, both days inclusive; the period, however, being excepted during which such note shall be

in the hands of the banker who first issued the same, Licenses for unstamped notes. or by whom the same shall be expressed to be payable ; and every unstamped promissory note payable to order, and every unstamped bill of exchange so issued, is for the same purpose deemed to be in circulation from the day of the issuing to the day of the payment thereof, both days inclusive. But every promissory note payable to order, and bill of exchange which shall be paid in less than seven days from the issuing thereof, is to be included in the account of notes and bills in circulation on the Saturday next after the day of the issuing thereof, as if the same were then actually in circulation.¹

The commissioners, on granting a license, are authorised to require such of the persons to whom it is to be granted, as they shall think fit, to be the obligors in the bond, which is to be taken in the sum of one hundred pounds, or such larger sum as the commissioners may judge to be the probable amount of the composition or duties that will be payable during the period of one year. They are to fix the time for payment of the composition of duties, and to specify the same in the condition to the bond. They may also, at their discretion, require every such bond to be renewed as often as the same shall be forfeited, or the parties to the same, or any of them, shall die, become bankrupt, or insolvent, or reside beyond the seas.² If any alteration, from whatever cause, be made in any copartnership of persons who are parties to such bond, a fresh bond must be given by the new or remaining firm ; and the new bond is to be taken as a security for the duties previously owing in respect of unstamped notes and bills issued Regulations respecting the bonds. Fresh bonds to be given on alterations of copartnership.

¹ s. 8.

² s. 9.

Licenses for
unstamped
notes.

before the change and then in circulation, as well as for those to become due with reference to notes and bills issued or to be issued by the persons composing the new or remaining copartnership. This rule does not of necessity extend to any copartnership of persons exceeding six in number. Bonds given by copartnerships of this description are to be taken as securities for all the duties they may incur so long as they shall exist, or the persons composing the same, or any of them, shall carry on business in copartnership together, or with any other person or persons, notwithstanding any alteration in such copartnership. With respect to these companies, however, the commissioners have the power, in any case where they shall deem it expedient, to require a new bond for securing the payment of the duties.¹

Penalties.

Persons having given bond under the act, and refusing or neglecting to renew it when forfeited, or when they are lawfully required so to do, are liable for every such offence to a penalty of one hundred pounds.² Persons licensed under the act, and post-dating any of their unstamped notes or bills, are liable to a penalty of one hundred pounds for each of such notes or bills.³ All notes and bills drawn and issued under the act, must be in conformity with the regulations which it prescribes; and nothing which it contains is to be construed as exempting from the forfeitures or penalties already in force any person who shall issue any unstamped note or bill, unless such person shall be duly licensed.⁴ The pecuniary forfeitures and penalties incurred under the act are recoverable in the Court of

Recovery of
penalties.

¹ s. 10.

² s. 11.

³ s. 12.

⁴ s. 13.

Exchequer at Westminster, by action of debt, bill, Not to affect privileges of the Bank of England. plaint, or information in the name of his majesty's attorney or solicitor-general.¹ And nothing contained in the act is to be construed as extending to prejudice, alter, or affect any of the rights, powers, or privileges of the Bank of England.²

III. DRAFTS ON BANKS.

All drafts, or orders, for the payment of any sum of money to the bearer on demand, and drawn upon any banker, or bankers, or any person or persons acting as a banker, who shall reside or transact the business of a banker, within ten miles of the place where such drafts, or orders, shall be issued, provided such place shall be specified in such drafts or orders, and provided the same shall bear date on or before the day on which the same shall be issued, and provided the same do not direct the payment to be made by bills or promissory notes, are exempt from stamp duties.³ Drafts on banks., 55 Geo. III. c. 184.

If any person make and issue, or cause to be made and issued, any bill, draft, or order for the payment of money to bearer on demand upon any banker, or any person acting as a banker, which shall be dated on any day subsequent to that on which it shall be issued, or which shall not truly specify and express the place where it shall be issued, or which shall not in every respect fall within the exemption contained in the schedule of 55 Geo. III. cap. 184, unless the same be duly stamped as a bill of exchange according to that act, the person so offending shall, for every such bill, draft, or order, forfeit the sum of one hundred pounds. And

¹ s. 14.² s. 15.³ Schedule 1. class 1.

55 Geo. III. c. 184. III. if any person should knowingly receive any such bill, draft, or order, in payment of, or as a security for, the sum therein mentioned, he shall for every such bill, draft, or order, forfeit the sum of twenty pounds. And if any banker, or any person acting as a banker, upon whom any such bill, draft, or order shall be drawn, shall pay, or cause or permit to be paid, the sum of money therein expressed, or any part thereof, knowing the same to be post-dated, or knowing that the place where it was issued is not truly specified therein, or knowing that the same does not in every other respect fall within the said exemption, he shall for every such bill, draft, or order, forfeit the sum of one hundred pounds; and, moreover, shall not be allowed the money so paid, or any part thereof, in account against the person by or for whom such bill, draft, or order, shall be drawn, or his executors, or administrators, or his assignees, or creditors, in case of bankruptcy or insolvency, or any other person claiming under him.¹

¹ s. 13.

CHAPTER V.

JOINT-STOCK BANKING COMPANIES.

THE Governor and Company of the Bank of England consented, in the year 1826, to relinquish¹ so much of their exclusive privileges as prohibit any body politic or corporate, or any number of persons exceeding six, in England, acting in copartnership, from borrowing, owing, or taking up any sum of money on their bills, or notes, payable at demand, or at any period less than six months from the borrowing thereof. But they agreed to those alterations upon condition that such body politic or corporate, or persons united in covenants or partnerships exceeding the number of six persons in each copartnership, should have the whole of their banking establishments, and carry on their business as bankers, at any place or places in England exceeding the distance of sixty-five miles from London; and that all the individuals composing such corporations or copartnerships should be responsible for the due payment of all bills and notes issued by such corporations or copartnerships respectively.

7 Geo. IV.
c. 46.

In consequence of this arrangement between the Government and the Bank, it was enacted,² that any bodies politic or corporate, erected for the purpose of banking, or any number of persons united in covenants

Copartnerships of more than six may carry on business as bankers.

¹ Preamble.

² s. 1.

or copartnerships, although such persons so united, or carrying on business together, should consist of more than six in number, might pursue the trade of bankers in England, in like manner as copartnerships of bankers consisting of not more than six persons in number might lawfully do; and that such bodies politic or corporate, or such persons so united, might make and issue their bills or notes at any place or places in England exceeding the distance of sixty-five miles from London, payable on demand, or otherwise, at some place or places specified upon such bills or notes exceeding the distance of sixty-five miles from London, and not elsewhere; and might borrow, owe, or take up any sum or sums of money on their bills or notes; such corporations or persons carrying on the trade of bankers in copartnership, shall not have any house of business or establishment as bankers in London, or at any place not exceeding the distance of sixty-five miles from London; and every member of any such corporation or copartnership shall be responsible for the due payment of all bills and notes which shall be issued, and for all sums of money which shall be borrowed, owed, and taken up by the corporation or copartnership of which such person shall be a member. But such person, in order to be so responsible, must be a member at the period of the date of the bills or notes, or become a member before or at the time of the bills or notes being payable, or be such member at the time of the borrowing, owing, or taking up of any sum of money on any bills or notes by the corporation or copartnership, or while any sum of money on any bills or notes is owing or unpaid, or at the time the same became due from the corporation or

copartnership, notwithstanding any agreement, covenant, or contract to the contrary.

The act is not to be considered¹ as authorising any such corporation or copartnership exceeding the number of six persons, either by any member of, or person belonging to, any such corporation or copartnership, or by any agent, or any other persons on behalf of any such corporation or copartnership, to issue or re-issue in London, or at any place not exceeding the distance of sixty-five miles from London, any bill or note of such corporation or copartnership which shall be payable to bearer on demand, or any bank post-bill; nor to draw upon any partner or agent, or other person resident in London, or any place not exceeding the distance of sixty-five miles from London, any bill of exchange which shall be payable on demand, or which shall be for a less amount than fifty pounds. But any such corporation or copartnership may draw a bill of exchange for any sum of money amounting to fifty pounds or upwards, payable either in London or elsewhere, at any period after date or after sight.

But not to issue notes within sixty-five miles of London, or to draw bills upon London for less than 50%.

The act is not to be considered² as authorising any such corporation or copartnership exceeding the number of six persons, or any member or agent of any such corporation or copartnership, to borrow, owe, or take up in London, or at any place not exceeding sixty-five miles from London, any sum of money on any bill or promissory note of any such corporation or copartnership payable on demand, or at any time less than six months from the borrowing thereof, nor to make or issue any bill of exchange, promissory notes, or notes

Nor to borrow money, or take up or issue bills of exchange, contrary to 39 and 40 Geo. III. c. 28, except as herein provided.

¹ s. 2.

s. 3.

of such corporation or copartnership, contrary to the provisions of the act of 39 and 40 of Geo. III. cap. 38, save as is provided by the act of 7 of Geo. IV. cap. 46. Neither is the act to be construed as preventing any such corporation or copartnership, by any agent or person authorised by them, from discounting in London, or elsewhere, any bill or bills of exchange not drawn by or upon such corporation or copartnership, or by or upon any person in their behalf.

Such copartnerships, before issuing notes, to deliver to Stamp-Office returns, as herein mentioned.

Before any such corporation or copartnership exceeding the number of six persons in England shall begin to issue any bills or notes, or borrow, owe, or take up any money on their bills or notes, an account,¹ or return, shall be made out according to the form contained in the schedule marked A to the act annexed,²

• 1 s. 4.

² Return, or account, to be entered at the Stamp-Office in London, in pursuance of an act passed in the seventh year of the reign of King George the Fourth, intituled, "An Act for the better regulating of Copartnerships of certain Bankers in England," and for amending so much of an act of the thirty-ninth and fortieth of the reign of his late majesty, King George the Third, intituled, "An Act for Establishing an Agreement with the Governor and Company of the Bank of England for advancing the sum of Three Millions towards the Supply for the Service of the year one thousand eight hundred," as relates to the same.

Firm or name of the banking corporation or copartnership, viz. [*set forth the firm or name.*]

Names and places of abode of all the partners concerned or engaged in such corporation or copartnership, viz. [*set forth all the names and places of abode.*]

Names and places of the bank or banks established by such corporations or copartnership, viz. [*set forth all the names and places.*]

Names and descriptions of the public officers of the said

wherein shall be set forth the true names, title, or firm, of such intended or existing corporation or copartnership, and also the names and places of abode of all the members of such corporation, or of all the partners concerned or engaged in such copartnership, as the same respectively shall appear on the books of such corporation or copartnership, and the name or firm of every bank or banks established or to be established by such corporation or copartnership; and also the names and places of abode of two or more persons being members of such corporation or copartnership, and being resident in England, who shall have been appointed public officers of such corporation or copartnership,

banking corporation or copartnership, viz. [*set forth all the names and descriptions.*]

Names of the several towns and places where the bills or notes of the said banking corporation or copartnership are to be issued by the said corporation or copartnership, viz. [*set forth the names of all the towns and places.*]

“*A. B.* of —, secretary [*or other officer, describing the office*] of the above corporation or copartnership, maketh oath and saith, That the above doth contain the name, style, and firm of the above corporation or copartnership, and the names and places of the abodes of the several members thereof, and of the banks established by the said corporation or copartnership, and the names, titles, and descriptions of the public officers of the said corporation or copartnership, and the names of the towns and places where the notes of the said corporation or copartnership are to be issued, as the same respectively appears in the books of the said corporation or copartnership, and to the best of the information, knowledge, and belief of this deponent.”

Sworn before me, the — day of —, at —, in the county of —,
C. D., justice of the peace in and for the said county.¹

¹ Schedule A, 7 Geo. IV. c. 46.

together with the title of office or other description of every such public officer respectively, in the name of any one of whom such corporation shall sue and be sued, as afterwards provided; and also the names of every town and place where any of the bills or notes of such corporation or copartnership shall be issued by any such corporation, or by their agent or agents. Every such account, or return, shall be delivered to the commissioners of stamps, at the Stamp-Office in London, who shall cause the same to be filed and kept in the Stamp-Office, and an entry and registry thereof to be made in a book or books to be there kept for that purpose, by some person or persons to be appointed by the commissioners in that behalf. Such book or books any person shall from time to time have liberty to search and inspect, on payment of the sum of one shilling for every search.

Such return
to be duly
verified.

The account, or return, is to be made out by the secretary,¹ or other person being one of the public officers of the establishment, and to be verified by his oath, taken before any justice of the peace (which oath any justice of the peace is by the act authorised and empowered to administer); and such account, or return, is to be delivered by such secretary, or public officer, to the commissioners of stamps between the twenty-eighth day of February and twenty-fifth day of March in every year after such corporation or copartnership shall have been formed. The commissioners are directed to file such account or return, and to keep it in the manner and for the purposes before mentioned.

¹ s. 5.

A copy of every such return so filed, or kept and registered at the Stamp-Office, certified to be a true copy under the hand or hands of one or more of the commissioners of stamps for the time being, upon proof made that such certificate has been signed with the handwriting of the person or persons making the same (and whom it is not necessary to prove to be a commissioner or commissioners), is in all proceedings, civil or criminal, and in all cases whatsoever, to be received in evidence as proof of the appointment and authority of the public officers named in such account or return; and also of the fact, that all persons named therein as members of such corporation or copartnership were members thereof at the date of such account or return.¹ A certified copy of any such account, or return, may, for any purpose, be obtained from the commissioners of stamps, upon payment of a fee of ten shillings.²

It is the duty of the secretary, or other officer of every such corporation or copartnership, as often as occasion shall render it necessary, to make out upon oath, in the manner before directed, and cause to be delivered to the commissioners of stamps, a further account or return, according to the form contained in the schedule marked (B.),³ of the name of any person

Certified copies to be evidence.

Return of new or additional officers; of persons having ceased to be members; of all new members, and of new or additional places where notes are issued.

¹ s. 6.

² s. 7.

³ *Return, or Account, to be entered at the Stamp Office in London, on behalf of [name the corporation or copartnership], in pursuance of an Act passed in the seventh year of the reign of King George the Fourth, intituled [insert the title of the Act], viz.*

Names of any and every new or additional public officer of the said corporation or copartnership, viz.

who shall have been nominated or appointed a new or additional public officer of such corporation or copartnership, and of the name of any person who shall have ceased to be a member of such corporation or copartnership; also of the name of any person who shall have become a member of such corporation or copartnership, either in addition to or in the place of any former member thereof, and of the name of any new or additional town or place where bills or notes are, or are intended to

A. B. in the room of C. D. deceased or removed [*as the case may be ; set forth every name*].

Names of any and every person, who may have become a new member of such corporation or copartnership [*set forth every name*].

Names of any additional towns or places where bills or notes are to be issued, and where the same are to be made payable.

A. B. of —, secretary [*or other officer*] of the above-named corporation or copartnership, maketh oath and saith, That the above doth contain the name and place of abode of any and every person who hath become or been appointed a public officer of the above corporation [*or copartnership*], and also the name and place of abode of any and every person who hath ceased to be a member of the said corporation [*or copartnership*], and of any and every person who hath become a member of the said corporation [*or copartnership*], since the registry of the said corporation or copartnership on the — day of — last, as the same respectively appear on the books of the said corporation [*or copartnership*], and to the best of the information, knowledge, and belief of this deponent.

Sworn before me the — day of —, at —, in the county of —.

C. D., justice of the peace in and for the said county.¹

¹ Schedule B. 7 Geo. IV. c. 46.

be issued, and where the same are to be made payable. Such further accounts or returns are to be filed and kept at the Stamp-Office in London, in the same manner as the original or annual account or return already mentioned.¹

All actions and suits, and also all petitions to found any commission of bankruptcy against any person who may be at any time indebted to any such copartnership carrying on business under the provisions of the act, and all other proceedings at law or in equity to be commenced or instituted for or on behalf of any such copartnership against any person, or bodies politic or corporate, or others, for recovering any debts, or enforcing any claims or demands due to such copartnership, or for any other matter relating to the concerns of such copartnership, are to be commenced and prosecuted in the name of any one of the public officers nominated as aforesaid, for the time being, of such copartnership, as the nominal plaintiff or petitioner for and on behalf of such copartnership. All actions and proceedings at law or in equity, to be commenced by any person, bodies politic or corporate, or others, whether members of such copartnership or otherwise, against such copartnership, are to be commenced and prosecuted against any one or more of the public officers nominated as aforesaid, for the time being of such copartnership, as the nominal defendant, for and on behalf of such copartnership. In the same manner, all indictments, informations, and prosecutions, by or on behalf of such copartnership, for any stealing, or embezzlement of any money, goods, effects, bills, notes, securities, or other property of or belonging to such copartnership,

To sue and be sued in the name of their public officers.

How forgery, &c. laid in indictment.

¹ s. 8.

or for any fraud, forgery, crime, or offence committed against or with intent to injure or defraud such copartnership, may be preferred and carried on in the name of one of the public officers nominated as aforesaid, for the time being of such copartnership. And in all indictments and informations to be preferred by or on behalf of such copartnership, against any person whomsoever, notwithstanding such person may happen to be a member of such copartnership, it will be sufficient to state the money, goods, effects, bills, notes, securities, or other property of such copartnership, to be the money, goods, effects, bills, notes, securities, or other property of any one of the public officers nominated as aforesaid, for the time being of such copartnership. Any forgery, fraud, or crime, or other offence committed against, or with intent to injure or defraud any such copartnership, may in such indictments, notwithstanding as aforesaid, be laid or stated to have been committed against, or with intent to injure or defraud any one of the public officers nominated as aforesaid, for the time being of such copartnership; and any offender may thereupon be lawfully convicted for any such forgery, fraud, crime, or offence. In all other allegations, indictments, informations, or other proceedings, of any kind whatsoever, in which it otherwise might or would have been necessary to state the names of the persons composing such copartnership, it will be sufficient to state the name of any one of the public officers nominated as aforesaid, for the time being of such copartnership. The death, resignation, removal, or any act of such public officer, is not to abate or prejudice any such action, suit, information, prosecution,

indictment, or other proceedings, commenced against, or by or on behalf of such copartnership; but the same may be continued, prosecuted, and carried on in the name of any other of the public officers of such copartnership for the time being.¹

No more than one action or suit can be brought against any such corporation or copartnership for the recovery of one demand, in case the merits shall have been tried in such action or suit; and the proceedings in any action or suit by or against any one of the public officers nominated as aforesaid, for the time being of any such copartnership, may be pleaded in bar of any other action or suit for the same demand by or against any other of the public officers of such copartnership.²

All decrees or orders made in any suit or proceeding in any court of equity against any public officer of any such copartnership have the same effect against the property and funds of such copartnership, and against the persons and property of every or any member or members thereof, as if every or any such members of such copartnership were parties members before the court to and in such suit or proceeding; and any court in which such order or decree shall have been made, may cause it to be enforced against every or any member of such copartnership in like manner as if every member of such copartnership were parties before such court to and in such suit or proceeding, and although all such members are not before the court.³

All judgments or decrees recovered or entered up against any public officer are to have the same effect against the property of such copartnership, and that of

No more than one action for recovery of one demand.

Decrees of a court of equity against public officers to take effect against copartnership.

Judgments against public officers to operate against copartnership.

¹ s. 9.

² s. 10

³ s. 11.

every member, as if they had been obtained against the copartnership. The bankruptcy, insolvency, or stopping payment of any public officer in his individual capacity is not to be construed to be the bankruptcy, insolvency, or stopping payment of such copartnership; and the copartnership, and every member thereof, together with the capital stock and effects of such copartnership, and the effects of every member of it, are in all cases, notwithstanding the bankruptcy, insolvency, or stopping payment of any such public officer, to be attached and attachable, and in all respects liable to the lawful claims and demands of the creditors of such copartnership and of any member or members thereof, as if no such bankruptcy, insolvency, or stopping payment of such public officer had taken place.¹

Execution upon judgment may be issued against any member of the copartnership;

Execution upon any judgment in any action obtained against any public officer for the time being of any such corporation or copartnership, whether as plaintiff or defendant, may be issued against any member or members of such corporation or copartnership. In case any such execution against any such member or members shall be ineffectual for obtaining satisfaction of the amount of such judgment, the party having obtained the judgment may issue execution against any person who was a member of such corporation or copartnership at the time when the contract or engagement in which such judgment may have been obtained was entered into, or who had become a member at any time before such contract or engagement was executed, or was a member at the time of the judgment obtained. But no such execution as that last men-

but upon motion on notice,

¹ s. 12.

tioned can be issued without leave first granted on motion in open court, by the court in which such judgment shall have been obtained, notice having been given to the person sought to be charged; nor after the expiration of three years next after any such person shall have ceased to be a member of such corporation or copartnership.¹ and within limited time.

Every such public officer, in whose name any such suit or action shall have been commenced, prosecuted, or defended, and every person against whom execution upon any judgment in any such action shall have been issued, is, however, always to be re-imbursed and fully indemnified for all loss, damages, costs, and charges, without deduction, which any such officer or person may have incurred by reason of such execution, out of the funds of the copartnership, or in failure thereof, by contribution from the other members of such copartnership, as in the ordinary cases of copartnerships.² Public officers to be indemnified.

If any corporation or copartnership carrying on the trade of bankers under the act, shall be desirous of issuing and re-issuing notes in the nature of bank-notes, payable to the bearer on demand, without the same being stamped, they may do so on giving security by bond, in which two of the directors, members or partners of such corporation or copartnership shall be the obligors, together with the cashier or cashiers, or accountant or accountants, employed by such corporation or copartnership, as the commissioners of stamps shall require. Such bonds shall be taken in such reasonable sums as the duties may amount unto during the period of one year, with condition to deliver to the commis- Copartnerships may issue unstamped notes, on giving bond as herein mentioned. Condition of bonds.

¹ s. 13.² s. 14.

sioners, within fourteen days after the 5th of January, the 5th of April, the 5th of July, and the 10th of October, in every year, whilst the present stamp-duties shall remain in force, a just and true account, verified upon the oaths or affirmations¹ of two directors, members or partners of such corporation or copartnership, and of the cashier or cashiers, accountant or accountants, or such of them as the commissioners shall require, of the amount or value of all their promissory notes in circulation on some given day in every week, for the space of one quarter of a year prior to the quarter-day immediately preceding the delivery of such account, together with the average amount or value thereof, according to such account. The bonds are to be taken also with a condition to pay, or cause to be paid, into the hands of the receiver-general of stamp duties in Great Britain, as a composition for the duties which would otherwise have been payable for such promissory notes issued within the space of one year, the sum of seven shillings for every hundred pounds, and also for the fractional part of one hundred pounds of the average amount or value of such notes in circulation. The commissioners are authorised to fix the time or times of making such payment, and to specify the same in the condition to every such bond; and every bond may be required to be renewed from time to time at the discretion of the commissioners or of the major part of them, and as often as the same shall be forfeited, or the party or parties to the same, or any of them, shall die, become bankrupt or insolvent, or reside beyond the seas.²

Renewal of
bonds.

¹ Which any justice of the peace is empowered by the act to administer.

² s. 16.

No such corporation or copartnership is obliged to take out more than four licenses for the issuing of any promissory notes for money payable to the bearer on demand, allowed by law to be re-issued, in all, for any number of towns or places in England; and in case any such corporation or copartnership shall issue such promissory notes, by themselves or their agents, at more than four different towns or places in England, then after taking out three distinct licenses for three of such towns or places, such corporation or copartnership shall be entitled to have all the rest of such towns or places included in a fourth license.¹

No copartnership compelled to take out more than four licenses.

If any such corporation or copartnership exceeding the number of six persons in England, begin to issue any bills or notes, or to borrow, owe, or take up any money on their bills or notes without having caused such account or return as aforesaid to be made out and delivered in the manner and form directed by the act, or neglect or omit to cause such account or return to be renewed yearly, and every year between the days or times before appointed for that purpose, such corporation or copartnership so offending shall, for each and every week they shall so neglect to make such accounts and returns, forfeit the sum of five hundred pounds. ^{Penalty}

If any secretary or other officer of such corporation or copartnership make out or sign such false account or return, or any account or return which shall not truly set forth all the several particulars by the act required to be contained or inserted therein, the corporation or copartnership to which such secretary or other officer so offending shall belong, shall, for every such offence,

Copartnership neglecting to send returns.

False or incomplete returns.

¹ s. 17.

Perjury.
Penalty.

Perjury.

forfeit the sum of five hundred pounds; and the said secretary or other officer so offending shall also, for every such offence, forfeit the sum of one hundred pounds. And if any such secretary or other officer making out or signing any such account or return as aforesaid shall knowingly and wilfully make a false oath of or concerning any of the matters to be therein specified and set forth, every such secretary or other officer so offending, and being thereof lawfully convicted, shall be subject and liable to such pains and penalties as by any law now in force persons convicted of wilful and corrupt perjury are subject and liable.¹

Copartner-
ship issuing
bills payable
on demand;

or drawing on
London for
less than 50*l.*,
or borrowing
money on
bills, or issu-
ing notes con-
trary to 39
and 40 Geo.
III. c. 28,
except as
herein pro-
vided.

If any such corporation or copartnership exceeding the number of six persons, carrying on the trade of bankers, shall, either by any member of, or person belonging to, any such corporation or copartnership, issue or re-issue in London, or at any place not exceeding the distance of sixty-five miles from London, any bill or note of such corporation or copartnership which shall be payable on demand; or shall draw upon any partner or agent, or other person who may be resident in London, or at any place not exceeding the distance of sixty-five miles from London, any bill of exchange which shall be payable on demand, or which shall be for a less amount than fifty pounds; and if any such corporation or copartnership, or any member, agent or agents of any such corporation or copartnership shall borrow, owe, or take up in London, or at any place not exceeding the distance of sixty-five miles from London, any sum of money on any bill or promissory note of any such corporation or copartnership payable on de-

¹ s. 18.

mand, or at any less time than six months from the borrowing thereof, or shall make or issue any bill of exchange or promissory note of such corporation or copartnership, contrary to the provisions of the 39th and 40th Geo. III. c. 28, save as provided by this act (7 Geo. IV. c. 46), such corporation or copartnership so offending, or on whose account or behalf any such offence shall be committed, shall, for every such offence, forfeit the sum of fifty pounds.¹

Penalty.

Nothing contained in the act is to be construed as prejudicing, altering, or affecting any of the rights, powers, or privileges of the Governor and Company of the Bank of England; except as the said² exclusive privilege of the said Governor and Company is by the act specially altered and varied.³ All pecuniary penalties and forfeitures imposed by the act may be sued for and recovered in his Majesty's Court of Exchequer at Westminster, in the same manner as penalties incurred under any act or acts relating to stamp-duties may be sued for and recovered in such courts.⁴

Rights of
Bank of Eng-
land.

Penalties how
recovered.

¹ s. 19.

² See s. 1.

³ s. 20.

⁴ s. 21.



APPENDIX.



APPENDIX.

A.

“THE Bank of England, which has long been the principal bank of deposit and circulation, not in this country only, but in Europe, was founded in 1694. Its principal projector was Mr. William Paterson, an enterprising and intelligent Scotch gentleman, who was afterwards engaged in the ill-fated colony at Darien. Government being at the time much distressed for want of money, partly from the defects and abuses in the system of taxation, and partly from the difficulty of borrowing, because of the supposed instability of the revolutionary establishment, the Bank grew out of a loan of 1,200,000*l.* for the public service. The subscribers, besides receiving eight per cent on the sum advanced as interest, and 4,000*l.* a-year as the expense of management, in all 100,000*l.* a-year, were incorporated into a society denominated the *Governor and Company of the Bank of England*. The charter is dated the 27th of July, 1694. It declares, amongst other things, that they shall ‘be capable in law to purchase, enjoy, and retain to them and their successors any manors, lands, rents, tenements, and possessions whatsoever; and to purchase and acquire all sorts of goods and chattels whatsoever, wherein they are not restrained by act of parliament; and also to grant, demise, and dispose of the same.

“ ‘That the management and government of the corporation be committed to the governor, deputy-governor, and twenty-four directors, who shall be elected between the 25th day of March

and the 25th day of April, each year, from among the members of the company duly qualified.

“ ‘ That no dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce arising by or out of the said capital stock or fund, or by such dealing as is allowed by act of parliament.

“ ‘ They must be natural born subjects of England, or naturalised subjects; they shall have in their own name and for their own use, severally, viz. the governor at least 4,000*l.*, the deputy-governor 3,000*l.*, and each director 2,000*l.* of the capital stock of the said corporation.

“ ‘ That thirteen or more of the said governors and directors (of which the governor or deputy-governor must be always one) shall constitute a court of directors, for the management of the affairs of the company, and for the appointment of all agents and servants which may be necessary, paying them such salaries as they may consider reasonable.

“ ‘ Every elector must have, in his own name, and for his own use, 500*l.* or more capital stock, and can only give one vote. He must, if required by any member present, take the oath of stock, or the declaration of stock in case he be one of the people called Quakers.

“ ‘ Four general courts to be held in every year, in the months of September, December, April, and July. A general court may be summoned at any time, upon the requisition of nine proprietors, duly qualified as electors.

“ ‘ The majority of electors in general courts have the power to make and constitute by-laws and ordinances for the government of the corporation, provided that such by-laws and ordinances be not repugnant to the laws of the kingdom, and be confirmed and approved, according to the statutes in such case made and provided.’

“ ‘ The corporation is prohibited from engaging in any sort of commercial undertaking other than dealing in bills of exchange, and in gold and silver. It is authorised to advance money upon the security of goods or merchandise pledged to it, and

to sell, by public auction, such goods as are not redeemed within a specified time.

“ It was also enacted, in the same year in which the Bank was established, by statute 6 William and Mary, cap. 20, that the Bank ‘ shall not deal in any goods, wares, or merchandise (except bullion), or purchase any lands or revenues belonging to the crown, or advance or lend to their majesties, their heirs or successors, any sum or sums of money by way of loan or anticipation, on any part or parts, branch or branches, fund or funds, of the revenue, now granted or belonging, or hereafter to be granted to their majesties, their heirs and successors, other than such fund or funds, part or parts, branch or branches of the said revenue only, on which a credit of loan is, or shall be, granted by parliament.’ And in 1697 it was enacted, that the ‘ common capital and principal stock, and also the real fund of the governor and company, or any profit or produce to be made thereof, or arising thereby, shall be exempted from any rates, taxes, assessments, or impositions whatsoever, during the continuance of the Bank ; and that all the profit, benefit, and advantage, from time to time arising out of the management of the said corporation, shall be applied to the uses of all the members of the said corporation of the Governor and Company of the Bank of England, rateably and in proportion to each member’s part, share, and interest in the common capital and principal stock of the said governor and company hereby established.’

“ It was further enacted, in 1697, that the forgery of the company’s seal, or of any sealed bill or bank-note, should be felony without benefit of clergy, and that the making of any alteration or erasure in any bill or note should also be felony.

“ In 1696, during the great recoinage, the Bank was involved in considerable difficulties, and was even compelled to suspend payment of her notes, which were at a heavy discount. Owing, however, to the judicious conduct of the directors, and the assistance of Government, the Bank got over the crisis. But it was at the same time judged expedient, in order to place her in

a situation the better to withstand any adverse circumstances that might afterwards occur, to increase her capital from 1,200,000*l.* to 2,201,171*l.* In 1708, the directors undertook to pay off and cancel one million and a half of exchequer bills which they had circulated two years before, at four and a half per cent, with the interest on them, amounting in all to 1,775,028*l.*; which increased the permanent debt due by the public to the Bank, including 400,000*l.* then advanced in consideration of the renewal of the charter, to 3,375,028*l.*, for which they were allowed six per cent. The Bank capital was then also doubled, or increased to 4,402,343*l.* But the year 1708 is chiefly memorable, in the history of the Bank, for the act that was then passed, which declared, that during the continuance of the corporation of the Bank of England, ‘it should not be lawful for any body politic, erected or to be erected, other than the said Governor and Company of the Bank of England, or for other persons whatsoever, united or to be united in covenants or partnerships, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof.’ This proviso, which has had so powerful an operation on banking in England, is said to have been elicited by the Mine-adventure Company having commenced banking business, and begun to issue notes.

“The charter of the Bank of England, when first granted, was to continue for eleven years certain, or till a year’s notice after the 1st of August, 1705. The charter was further prolonged in 1697. In 1708, the Bank having advanced 400,000*l.* for the public service, without interest, the exclusive privileges of the corporation were prolonged till 1733. And in consequence of various advances made at different times, the exclusive privileges of the Bank have been continued by successive renewals, to a year’s notice after the 1st of August, 1833. The last renewal was made in 1800, by the act 40 Geo. III. cap. 28, in consideration of an advance by the Bank to the public of *three*

millions for six years without interest."—M'CULLOCH'S *Dictionary of Commerce*—Art. *Bank of England*.

B.

FOR the amount of the bonuses occasionally distributed amongst the Bank proprietors, see table E in this Appendix.

C.

"AT the end of the war, the naval and military pensions, superannuated allowances, &c. (all included under the term *Dead Weight*) amounted to above 5,000,000*l.* a year. They would of course have been gradually lessened, and ultimately extinguished, by the death of the parties. But it was resolved, in 1822, to attempt to spread the burden over the whole period of *forty-five* years, during which it was calculated the annuities would continue to decrease. To effect this purpose, it was supposed that, upon Government offering to pay 2,800,000*l.* a year for forty-five years, capitalists would be found who would undertake to pay the entire annuities, according to a graduated scale previously determined upon, making the first year a payment of 4,900,000*l.*, and gradually decreasing the payments until the forty-fifth and last year, when they were to amount only to 300,000*l.* This supposition, however, was not realised. No capitalists were found willing to enter into such distant engagements. But in 1823 the Bank agreed, on condition of receiving an annuity of 585,740*l.* for *forty-four* years, commencing the 5th of April 1823, to pay on account of the pensions, &c. at different specified periods, between the years 1823 and 1828, both inclusive, the sum of 13,089,419*l.* 4 Geo. IV. c. 22."—M'CULLOCH'S *Dictionary of Commerce*—Art. *Bank*.

D.

Facilities granted in drawing Accounts, since the year 1825.

1. The Bank receive dividends by power of attorney for all persons having drawing accounts at the Bank.
2. Dividend warrants are received at the Drawing Office for ditto.
3. Exchequer bills and other securities are received for ditto ; the bills exchanged, the interest received, and the amount carried to their respective accounts.
4. Checks may be drawn for 5*l.* and upwards, instead of 10*l.* as heretofore.
5. Cash-boxes taken in, contents unknown, for such parties as keep accounts at the Bank.
6. Bank-notes are paid at the counter, instead of drawing tickets for them on the pay clerks, as heretofore.
7. Checks on city bankers, paid in by three o'clock, may be drawn for between four and five; and those paid in before four will be received and passed to the account the same evening.
8. Checks paid in after four are sent out at nine o'clock the following morning, received and passed to account, and may be drawn for as soon as received.
9. Dividend warrants taken in at the Drawing Office until five in the afternoon, instead of till three as heretofore.
10. Credits paid into account are received without the Bank book, and are afterwards entered therein without the party claiming them.
11. Bills of exchange accepted payable at the Bank, are paid with or without advice; heretofore with advice only.
12. Notes of country bankers payable in London are sent out the same day for payment.
13. Checks are given out in books, and not in sheets as heretofore.

J. RIPPON, Chief Cashier.

Bank of England, 4th June, 1832.

Report, p. 26.

E.

ACCOUNT OF CAPITAL AND PROFIT.

Statement (compiled by Mr. Heppel) of the variations in the Amount of the Capital of the Bank of England from the date of the first Charter, and of the annual Profits, annual Dividends, and occasional distributions in Bonuses, since the year 1790,¹ in so far as the same can be ascertained from the Accounts presented to the Committee.

Date.	Amount of Capital.	Annual Profit.	Annual Dividend.	Rate per cent.	Amount of Rest.	Occasional Bonuses.
	£.	£.	£.		£.	£.
1694	1,200,000	.....	.....	...	.....	.....
1697	2,201,171	.....	.....	...	.....	.....
1707	1,200,000	.....	.....	...	.....	.....
1709	5,058,547	.....	.....	...	.....	.....
1710	5,559,995	.....	.....	...	.....	.....
1722	8,959,995	.....	.....	...	.....	.....
1742	9,800,000	.....	.....	...	.....	.....
1746	10,780,000	.....	.....	...	.....	.....
1782	11,642,400	.....	.....	...	.....	.....
1790	.....	752,908	814,968	7	2,757,310	.....
1791	.....	823,058	814,968	...	2,765,400	.....

¹ As the dividends which were shared by the Bank previous to 1790 are not included in the accounts rendered to the Committee, I extract a statement of them from Mr. M'Culloch's *Dictionary of Commerce* — one of the most useful as well as the most ably executed works of that description that have ever come under my observation. I am indebted to it for some valuable materials which will be found in this Appendix.

Years.	Dividend.	Years.	Dividend.
1694	8 per cent.	Michaelmas 1732	5½ per cent.
1697	9 —	Lady-day 1747	5 —
1708 } Varied from 9		Lady-day 1753	4½ —
1729 } to 5½ —		Michaelmas 1753	5 —
Lady-day 1730	6 —	Lady-day 1754	4½ —
Michaelmas 1730	5½ —	Michaelmas 1764	5 —
Lady-day 1731	6 —	Michaelmas 1767	5½ —
Michaelmas 1731	5½ —	Michaelmas 1781	6 —
Lady-day 1732	6 —	Lady-day 1788	7 —

Date.	Amount of Capital.	Annual Profit.	Annual Dividend.	Rate per cent.	Amount of Rest.	Occasional Bonuses
	£.	£.	£.		£.	£.
1792	11,642,400	780,078	814,968	7	2,730,510	.....
1793	908,288	814,968	...	2,823,830	.....
1794	985,218	814,968	...	2,994,080	.....
1795	929,978	814,968	...	3,109,090	.....
1796	951,188	814,968	...	3,245,310	.....
1797	1,040,978	814,968	...	3,471,320	.....
1798	758,058	814,968	...	3,414,410	.....
1799	1,464,288	814,968	...	2,899,490	1,164,2
1800	1,822,108	814,968	...	3,906,630	.....
1801	1,345,348	814,968	...	3,854,890	582,1
1802	1,424,508	814,968	...	4,168,370	296,0
1803	1,357,368	814,968	...	4,710,770	.....
1804	1,522,768	814,968	...	4,836,450	582,1
1805	1,521,508	1,397,088	12	4,960,870	.....
1806	1,460,538	1,397,088	...	5,024,320	.....
1807	1,093,600	1,164,240	10	4,953,740	.....
1808	1,346,730	1,164,240	...	5,136,230	....
1809	1,284,400	1,164,240	...	5,256,390	.....
1810	1,661,960	1,164,240	...	5,754,110	.....
1811	1,374,200	1,164,240	...	5,964,070	.....
1812	1,599,770	1,164,240	...	6,399,600	.....
1813	1,595,140	1,164,240	...	6,830,500	.....
1814	1,559,150	1,164,240	...	7,225,410	.....
1815	2,257,380	1,164,240	...	8,318,550	.....
1816	} 14,553,000	2,129,040	1,309,770	...	6,227,220	2,910,0
1816½						
1817	873,600	1,455,300	...	5,645,520	.....
1818	413,820	1,455,300	...	4,604,040	..

Year.	Amount of Capital.	Annual Profit.	Annual Dividend.	Rate per cent.	Amount of Rest.	Occasional Bonuses.
	£.	£.	£.		£.	£.
1819	14,553,000	630,320	1,455,300	10	3,779,060	.....
1820	1,013,190	1,455,300	...	3,336,950	.....
1821	1,713,730	1,455,300	...	3,595,380	.....
1822	1,384,160	1,455,300	...	3,524,240	.....
1823	707,020	1,164,240	8	3,067,020	.....
1824	977,250	1,164,240	...	2,880,030	.....
1825	1,215,160	1,164,240	...	2,930,950	.....
1826	1,307,730	1,164,240	...	3,074,440	.....
1827	953,200	1,164,240	...	2,863,400	.....
1828	1,146,460	1,164,240	...	2,845,620	.....
1829	1,193,510	1,164,240	...	2,874,890	.....
1830	919,980	1,164,240	...	2,630,630	.....
1831	1,270,460	1,164,240	...	2,736,850	.....

The above table is compiled from Appendix, Nos. 5, 33, and 34.

F.

“ I THINK it right to premise, that I assume, as indisputable, that the course of exchange is the criterion of the balance of trade; that the exchanges, though subject to temporary fluctuations, will inevitably be against that country which, in its intercourse with another (or with others, having means of commercial communication), sells goods to a less amount than it buys, whatever may be the nature or extent of its *local currency*; (and accordingly, in all times past, the exchange has been against the continent when our exports have exceeded our imports, and is now against this country, notwithstanding there has been in France, and some other parts of the continent, ‘ a material adulteration in the metallic currency, particularly in the gold

coin ;' and a bill on any of the branches of the French Government is hardly to be negotiated at any rate.)

"That the exchange between the two places is *at par* when a quantity of gold or silver of the one place is convertible, at the market price, into such an amount of the currency of that place as will purchase an order or bill of exchange on the other place, that will *there* command, at the market price, the like quantity of gold or silver of the same quality.*

"That, to admit of the exchange being *at par* between two such places, the trade must also be at par; that is, if one sells as much goods as will require 1,000 ounces of gold or silver in payment, the other must also sell as much goods as will require 1,000 ounces of gold or silver in payment; and when the trade is not at par, the one that has sold the least must make up the difference in the precious metals, or remain in debt to the other.†

"But if different *periods of payment* be fixed or occasioned for the goods which these two places take of each other; if one, for instance, from whatever cause, has to pay for the goods received within two months from the date of delivery, while, on the contrary, it gives twelve months' credit, or if, the place of delivery of the goods of the latter being more distant, the delivery takes more time, the effect for a certain period will be,

* "LOCKE.—'Foreign exchange is the paying of money in one country to receive it in another.'

" 'The exchange is high when a man pays for bills of exchange above the par. It is low when he pays less than the par.'"

† " 'The par is a certain number of pieces of the coin of one country, containing in them an equal quantity of silver to that in another number of pieces of the coin of another country, viz. supposing 36 skillings of Holland to have just as much silver in them as 20 English shillings, bills of exchange drawn from England to Holland, at the rate of 36 shillings Dutch for each pound sterling, is according to the par. He that pays the money here, and receives it there, neither gets nor loses by the exchange, but receives just the same quantity of silver in the one place that he parts with in the other. But if he pays one pound sterling to receive but 30 skillings in Holland, he pays one-sixth more than the par, and so pays one-sixth more silver for the exchange, let the sum be what it will.'"

that the one will have *immediate* demands which (if it cannot or will not receive goods) must be satisfied, or paid with gold or silver, notwithstanding the goods supplied by the other may greatly exceed in value those received, and for which it has thus in the first instance to pay; and accordingly, the balance of payments, and a consequent low rate of exchange, *may be, to a considerable amount, and for 'a considerable length of time,' against a country, that, upon the whole, has the balance of trade in its favour.*"—*Examination of the Bullion Report*, pp. 64-7.

G.

THE four following tables, compiled by Mr. Heppel from the accounts laid before the Committee, present a general account of the past and present state of the Bank of England.

TABLE I.—LIABILITIES.

An Account of the average Liabilities of the Bank of England, under the several heads of Circulation and Deposits, in each Year, from 1778 to 1832, so far as the same can be ascertained from the Accounts delivered to the Committee.

	Circulation.	Deposits.	Total Liabilities.
Year.	Average of Notes and Bank Post-Bills.	Average Amount of Deposits.	Average Amount of Total Liabilities.
	£.	£.	£.
1778	7,099,200	4,688,865	11,788,065
1779	8,144,575	4,779,600	12,924,175
1780	7,376,195	5,689,845	13,066,040
1781	6,700,940	5,859,230	12,560,170
1782	7,394,095	6,444,875	13,838,970
1783	6,991,180	5,285,325	12,276,505

	Circulation.	Deposits.		Total Liabilities.
Year.	Average of Notes and Bank Post-Bills.	Average Amount of Deposits.		Average Amount of Total Liabilities.
	£.	£.		£.
1784	5,897,635	5,085,525		10,983,160
1785	6,246,870	6,460,595		12,707,465
1786	7,883,145	6,009,450		13,892,595
1787	9,007,780	5,766,810		14,774,590
1788	9,782,000	5,352,845		15,134,845
1789	10,464,505	5,969,910		16,434,415
1790	10,736,940	6,211,235		16,948,175
1791	11,555,760	6,401,140		17,956,900
1792	11,407,035	5,524,925		16,931,960
1793	11,589,110	5,894,630		17,483,740
1794	10,833,457	6,913,760		17,747,217
1795	11,482,928	7,064,000		18,546,928
1796	10,220,797	6,179,340		16,400,137
1797	10,989,703	6,328,440		17,318,143
1798	12,570,785	7,224,810		19,795,595
1799	13,471,217	7,887,030		21,358,247
1800	15,150,082	7,698,870		22,848,952
1801	15,809,598	9,439,835		25,249,433
1802	16,678,632	8,298,675		24,977,307
1803	16,485,523	8,933,740		25,419,263
1804	17,406,742	9,196,180		26,602,922
1805	16,883,002	13,065,850		29,948,852
1806	16,789,947	9,808,560		26,598,507
		<div>Public. Private.</div>		
		<div>£. £.</div>		
1807	16,705,882	12,647,551	1,582,720	30,936,153
1808	17,107,100	11,761,448	1,940,630	30,809,178

	Circulation.	Deposits.		Total Liabilities.
Year.	Average of Notes and Bank Post-Bills.	Average Amount of Public Deposits.	Average Amount of Private Deposits.	Average Amount of Total Liabilities.
	£.	£.	£.	£.
1809	18,914,472	11,093,648	1,492,190	31,500,310
1810	22,541,500	11,950,047	1,428,720	35,920,267
1811	23,282,677	10,191,854	1,567,920	35,042,451
1812	23,256,507	10,390,130	1,573,950	35,220,587
1813	24,023,548	10,393,404	1,771,310	36,188,262
1814	26,907,612	12,158,227	2,374,910	41,440,749
1815	26,889,432	11,737,436	1,690,490	40,317,358
1816	26,574,815	10,807,660	1,333,120	38,715,595
1817	28,274,878	8,699,133	1,672,800	38,646,811
1818	27,201,955	7,066,887	1,642,210	35,909,052
1819	25,145,292	4,538,373	1,790,860	31,474,525
1820	23,909,592	3,713,442	1,325,060	28,948,094
1821	21,577,655	3,920,157	1,326,020	26,823,832
1822	17,862,872	4,107,853	1,373,370	23,344,095
1823	18,629,525	5,526,635	2,321,920	26,478,080
1824	20,135,342	7,222,187	2,369,910	29,727,439
1825	20,111,860	5,347,314	2,607,900	28,067,074
1826	22,304,638	4,214,271	3,322,070	29,840,979
1827	21,512,455	4,223,867	3,931,370	29,667,692
1828	21,039,840	3,821,697	5,701,280	30,562,817
1829	19,639,947	3,862,656	5,217,210	28,719,813
1830	20,491,102	4,761,952	5,562,250	30,815,304
1831	18,312,877	3,948,102	5,201,370	27,462,349
1832	18,038,633			

Note.—The only data which the accounts delivered to the committee afford for ascertaining the average amount of circulation prior to the year 1792, and of deposits prior to the year 1807, are the statements of the amount of each on the 28th of February and 31st of August in each year, given in Appendix, No. 5. The respective average amounts in the following years are obtained from Appendix, Nos. 24, 32, and 82.

TABLE II.—ASSETS.

An Account of the average Assets of the Bank of England, under the several heads of Public and Private Securities, and Coin and Bullion, from 1778 to 1832, so far as the same can be ascertained from the Accounts delivered to the Committee.

Year.	Average amount of Public Securities.	Average amount of Private Securities.	Average amount of Coin and Bullion.	Total average amount of Assets.
	£.	£.	£.	£.
1778	7,219,362	3,209,883	2,569,555	12,998,800
1779	8,177,946	2,214,929	3,847,225	14,240,100
1780	7,943,086	2,680,199	3,880,215	14,503,500
1781	7,624,765	3,523,560	3,071,265	14,219,590
1782	9,666,814	3,972,116	2,057,205	15,696,135
1783	9,791,193	3,527,597	955,635	14,274,425
1784	8,112,534	3,959,266	1,097,835	13,169,635
1785	6,962,227	4,096,303	4,113,930	15,172,460
1786	7,412,350	2,953,660	6,145,070	16,511,080
1787	7,854,445	3,751,910	5,959,845	17,566,200
1788	8,336,962	3,380,452	6,321,300	18,038,714
1789	8,955,721	2,373,505	7,937,295	19,266,521
1790	9,197,322	1,970,498	8,509,665	19,677,485
1791	10,650,829	2,060,461	7,962,460	20,673,750
1792	10,326,920	3,160,315	5,912,720	19,399,955
1793	9,965,523	5,441,942	4,666,345	20,073,810
1794	9,406,902	4,078,603	6,878,610	20,364,115
1795	13,207,538	3,693,092	5,632,035	22,532,665
1796	11,913,580	5,169,075	2,331,290	19,413,945
1797	10,239,827	7,309,632	2,587,895	20,137,354
1798	11,085,685	5,988,885	6,187,520	23,262,090
1799	10,481,816	6,502,919	7,282,340	24,267,075
1800	13,781,126	8,000,108	5,647,350	27,428,584
1801	13,942,442	10,374,708	4,487,690	28,804,840
1802	13,863,847	10,672,744	4,022,365	28,558,956
1803	11,377,033	14,039,837	3,684,625	29,101,495

TABLE II.—*continued.*

Year.	Average amount of Public Securities.	Average amount of Private Securities.	Average amount of Coin and Bullion.	Total average amount of Assets.
	£.	£.	£.	£.
1804	14,839,040	11,573,785	4,625,665	31,038,490
1805	14,151,384	14,065,736	6,754,150	34,971,270
1806	14,490,685	13,541,400	6,101,105	34,133,190
1807	13,431,463	15,241,242	6,313,595	34,986,300
1808	14,552,948	13,761,137	6,935,705	35,249,780
1809	15,025,549	16,251,186	4,070,590	35,347,325
1810	15,760,655	22,415,520	3,346,630	41,522,805
1811	19,543,024	17,559,791	3,297,120	40,399,935
1812	21,646,222	16,454,983	3,041,230	41,142,435
1813	25,314,481	13,704,534	2,798,385	41,817,400
1814	29,306,401	15,861,534	2,151,055	47,318,990
1815	25,853,445	18,852,895	2,722,975	47,429,315
1816	22,761,605	17,578,820	6,101,830	46,442,255
1817	26,318,523	7,123,607	10,674,615	44,116,745
1818	27,035,186	4,552,859	8,209,310	39,897,355
1819	23,887,131	7,710,643	3,889,990	35,487,764
1820	20,444,583	4,572,222	6,561,065	31,577,870
1821	15,881,971	3,753,933	11,551,745	31,187,649
1822	13,073,246	3,558,549	10,577,555	27,209,350
1823	12,750,753	5,142,797	11,521,235	29,414,785
1824	14,495,157	5,393,108	12,798,745	32,687,010
1825	18,431,077	6,597,603	6,206,710	31,235,390
1826	19,143,569	9,857,536	4,606,870	33,607,975
1827	19,247,305	4,117,120	10,311,395	33,675,820
1828	20,250,777	3,492,624	10,423,085	34,166,486
1829	19,904,552	5,118,727	6,815,275	31,838,554
1830	20,475,253	3,909,787	10,160,740	34,545,780
1831	18,992,062	5,564,943	7,328,405	31,885,410
1832	19,662,724	5,492,021	6,223,575	31,378,320

Note.—The only data which the accounts delivered to the committee afford for ascertaining the foregoing averages, are contained in Appendix, No. 5.

Year, ending February the 28th, from 1814 to 1831; with the Market Price of Gold and Silver, the Course of Exchange with Paris, Lisbon, and Hamburg, and the Premium on Gold at Paris at the several dates, in so far as the same can be ascertained from the Accounts delivered to the Committee.

Date; each year ending Feb. 28th.	Coin.	Uncoined Bullion.	Total, coined and uncoined.		Price per oz. in bars.		Course of Exchange.			Premium on Gold in Paris; per cent.
			Highest amount.	Lowest amount.	Gold.	Silver.	With Paris, 3 days' sight.	With Lisbon.	With Hamburg.	
			£.	£.	£. s. d.	s. d.	Frs. Cts.			Frs. Cts.
1814. Nov. 5	£. 1,733,000	£. 428,000	2,161,000	2,009,000						
1815. Feb. 25	1,719,000	290,000	.....	2,034,000						
1815. Mar. 4	1,749,000	285,000	.....	4,566,000						
1816. Feb. 17	1,548,000	3,018,000	.....	4,678,000						
1816. Mar. 2	1,557,000	3,121,000	.....	9,990,000						
1817. Feb. 1	2,027,000	7,963,000	.....	9,674,000						
1817. Mar. 1	1,932,000	7,742,000	.....	11,914,000						
1817. Oct. 11	5,437,000	6,477,000	.....	10,078,000						
1818. Mar. 7	7,155,000	2,923,000	.....	4,354,000	4 1 6	5 7	23 85	58	34	
1819. Feb. 27	3,316,000	1,038,000	.....	3,570,000	3 17 10½	5 2	25 20	53	36 4	
1819. Sept. 4	3,072,000	498,000	.....	4,907,000	3 17 10½	5 1½	25 20	50½	36 4	
1820. Feb. 26	3,152,000	1,755,000	.....	.....			25 20	50½	36 4	
1820. Mar. 1	3,164,000	1,800,000	.....	4,964,000	3 17 10½	5 1½	25 80	49½	38 2	7 75
1821. Feb. 24	3,847,000	7,792,000	.....	11,639,000	3 17 10½	4 11½	25 80	50	38 7	9 0
1821. May 5	5,695,000	7,634,000	.....	13,329,000	3 17 10½	4 11½	25 40	51	37 5	4 0
1822. Feb. 2	6,631,000	4,327,000	.....	10,958,000	3 17 10½	4 11½				

TABLE IV. — continued.

Date; each year ending Feb. 28th.	Coin.	Uncoined Bullion.	Total, coined and uncoined.		Price per oz. in bars.		Course of Exchange.			Premium on Gold in Paris; per cent.
			Highest amount.	Lowest amount.	Gold.	Silver.	With Paris. 3 days' sight.	With Lisbon.	With Hamburg.	
	£.	£.	£.	£.	£. s. d.	s. d.	Frs. Cts.	Frs. Cts.		Frs. Cts.
1822. Mar. 16	7,705,000	3,381,000	11,086,000		3 17 10½	4 11½	25 30	50½	37 2	4 0
1822. Nov. 2	7,994,000	1,861,000	.....	9,855,000	3 17 6	4 11½	25 55	52½	37 8	7 50
1823. Mar. 1	8,657,000	1,715,000	.....	10,372,000	3 17 6	4 11½	25 80	51¾	38 4	4 75
1823. Dec. 20	8,206,000	5,936,000	14,142,000	.....	3 17 6	4 11½	25 70	52	37 7	7 0
1824. Mar. 20	7,832,000	6,113,000	13,945,000	.....	3 17 6	4 11½	25 60	50¾	37 6	6 50
1825. Feb. 26	7,285,000	1,572,000	.....	8,857,000	3 17 9	5 0¾	25 15	51	36 11	1 75
1825. Mar. 5	7,245,000	1,368,000	8,613,000	.....	3 17 9	5 0¾	25 15	51½	36 11	2 0
1825. Dec. 24	426,000	601,000	.....	1,027,000	3 17 6	5 0¾	25 50	50	37 11	3 50
1826. Mar. 4	920,000	2,428,000	.....	3,348,000	3 17 6	5 0¾	25 65	51½	37 8	7 25
1827. Feb. 24	7,547,000	2,460,000	10,007,000	.....	3 17 6	4 11½	25 55	50¼	37 3	4 0
1827. June 16	9,114,000	1,563,000	10,677,000	.....	3 17 6	4 11½	25 55	49½	37 2	4 50
1828. Jan. 26	8,805,000	1,391,000	.....	10,196,000	3 17 6	5 0¾	25 30	46¾	13 11	1 75
1828. Aug. 23	8,734,000	1,746,000	10,480,000	.....	3 17 6	4 11½	25 35	45¾	13 14	5 75
1829. Feb. 21	6,097,000	730,000	.....	6,827,000	3 17 10½	4 11½	25 40	45¼	13 13	6 50
1829. Apr. 18	5,311,000	793,000	.....	6,104,000	3 17 9	4 11½	25 60	45¾	13 14½	8 0
1830. Feb. 27	7,086,000	2,075,000	9,161,000	.....	3 17 9	4 11	25 85	44	14 3	16 25
1830. June 26	8,891,000	2,904,000	11,795,000	.....	3 17 9	4 11½	25 65	44	14 1½	9 75
1831. Feb. 19	6,088,000	2,123,000	.....	8,211,000	3 17 10½	4 11½	25 20	46	13 11	9 25
1831. Mar. 5	6,179,000	2,031,000	8,210,000	.....	3 17 10½	4 11½	25 20	46	13 12	12 50
1832. Feb. 4	4,267,000	821,000	.....	5,088,000	3 17 10½	4 11½	25 40	47¾	13 12	5 0

H.

Table, extracted from the Appendix to the Report, No. 5, containing an Account of the Amount of the Notes of the Bank of England in Circulation, distinguishing those under £5; of the Amount of all Deposits, and the Amount of all Securities (including Bullion) on the 28th of February and 31st of August in each year, from the year 1782 to 1792.

28 Feb. 1782.	£.	28 Feb. 1782.	£.
Circulation ...	8,028,880	Securities { Public, 10,346,055 } { Private, 3,448,015 }	13,794,070
Deposits	6,130,300	Bullion	2,157,860
	14,159,180	.....Rest, £1,792,750.	15,951,930
31 Aug. 1782.		31 Aug. 1782.	
Circulation ...	6,759,310	Securities { Public, 8,987,573 } { Private, 4,496,217 }	13,483,790
Deposits	6,759,450	Bullion	1,956,550
	13,518,760	.....Rest, £1,921,580.	15,440,340
28 Feb. 1783.		28 Feb. 1783.	
Circulation ...	7,675,090	Securities { Public, 10,616,349 } { Private, 2,779,431 }	12,795,780
Deposits	4,465,000	Bullion	1,321,190
	12,140,090	.....Rest, £1,976,880.	14,116,970
30 Aug. 1783.		30 Aug. 1783.	
Circulation ...	6,307,270	Securities { Public, 9,566,037 } { Private, 4,275,763 }	13,841,800
Deposits	6,105,650	Bullion	590,080
	12,412,920	.....Rest, £2,018,960.	14,431,880

Amount of Notes in Circulation, &c.— <i>continued.</i>				
28 Feb. 1784.	£.	28 Feb. 1784.	£.	£.
Circulation ...	6,202,760	Securities { Public, 7,789,291 Private, 3,829,929 }		11,619,220
Deposits	3,903,920	Bullion		655,840
	10,106,680	..... Rest, £2,168,380.		12,275,060
31 Aug. 1784.		31 Aug. 1784.		
Circulation ...	5,592,510	Securities { Public, 8,435,777 Private, 4,088,603 }		12,524,380
Deposits	6,267,130	Bullion		1,539,830
	11,859,640	..... Rest, £2,204,570.		14,064,210
28 Feb. 1785.		28 Feb. 1785.		
Circulation ...	5,923,090	Securities { Public, 7,198,564 Private, 4,973,926 }		12,172,490
Deposits	6,669,160	Bullion		2,740,820
	12,592,250	..... Rest, £2,321,060.		14,913,310
31 Aug. 1785.		31 Aug. 1785.		
Circulation ...	6,570,650	Securities { Public, 6,725,891 Private, 3,218,679 }		9,944,570
Deposits	6,252,030	Bullion		5,487,040
	12,822,680	..... Rest, £2,608,930.		15,431,610
28 Feb. 1786.		28 Feb. 1786.		
Circulation ...	7,581,960	Securities { Public, 6,836,459 Private, 3,516,781 }		10,353,240
Deposits	6,151,660	Bullion		5,979,090
	13,733,620	..... Rest, £2,598,710.		16,332,330
31 Aug. 1786.		31 Aug. 1786.		
Circulation ...	8,184,330	Securities { Public, 7,968,241 Private, 2,390,539 }		10,378,780
Deposits	5,867,240	Bullion		6,311,050
	14,051,570	..... Rest, £2,638,260.		16,689,830

Amount of Notes in Circulation, &c.—*continued.*

28 Feb. 1787.	£.	28 Feb. 1787.	£.	£.
Circulation ...	8,329,840	Securities { Public, 7,642,587 } { Private, 3,716,463 }		11,359,050
Deposits	5,902,080	Bullion		5,626,690
	14,231,920	.....Rest, £2,753,820.		16,985,740
31 Aug. 1787.		31 Aug. 1787.		
Circulation ...	9,685,720	Securities { Public, 8,066,303 } { Private, 3,787,357 }		11,853,660
Deposits	5,631,540	Bullion		6,293,000
	15,317,260	.....Rest, £2,829,400.		18,146,660
29 Feb. 1788.		29 Feb. 1788.		
Circulation ...	9,561,120	Securities { Public, 7,833,857 } { Private, 4,030,653 }		11,864,510
Deposits	5,177,050	Bullion		5,743,440
	14,738,170	.....Rest, £2,869,780.		17,607,950
30 Aug. 1788.		30 Aug. 1788.		
Circulation ..	10,002,880	Securities { Public, 8,840,068 } { Private, 2,730,252 }		11,570,320
Deposits	5,528,640	Bullion		6,899,160
	15,531,520	... ..Rest, £2,937,960.		18,469,480
28 Feb. 1789.		28 Feb. 1789.		
Circulation ...	9,807,210	Securities { Public, 8,249,582 } { Private, 2,711,108 }		10,960,690
Deposits	5,537,370	Bullion		7,228,730
	15,344,580	.....Rest, £2,844,840.		18,189,420
31 Aug. 1789.		31 Aug. 1789.		
Circulation ...	11,121,800	Securities { Public, 9,661,859 } { Private, 2,035,901 }		11,697,760
Deposits	6,402,450	Bullion		8,645,860
	17,524,250	.....Rest, £2,819,370.		20,343,6

Amount of Notes in Circulation, &c.— <i>continued</i> .				
28 Feb. 1790.	£.	28 Feb. 1790.	£.	£.
Circulation ...	10,040,540	Securities { Public, 8,347,387 Private, 1,984,733 }		10,332,120
Deposits	6,223,270	Bullion		8,633,000
	16,263,810	.....Rest, £2,701,310.		18,965,120
31 Aug. 1790.		31 Aug. 1790.		
Circulation ...	11,433,340	Securities { Public, 10,047,257 Private, 1,956,263 }		12,003,520
Deposits	6,199,200	Bullion		8,386,330
	17,632,540	.....Rest, £2,757,310.		20,389,850
28 Feb. 1791.		28 Feb. 1791.		
Circulation ...	11,439,200	Securities { Public, 10,380,358 Private, 2,222,282 }		12,602,640
Deposits	6,364,550	Bullion		7,869,410
	17,803,750	.....Rest, £2,668,300.		20,472,050
31 Aug. 1791.		31 Aug. 1791.		
Circulation ...	11,672,320	Securities { Public, 10,921,300 Private, 1,898,640 }		12,819,940
Deposits	6,437,730	Bullion		8,055,510
	18,110,450	.....Rest, £2,765,400.		20,875,450
29 Feb. 1792.		29 Feb. 1792.		
Circulation ...	11,307,380	Securities { Public, 9,938,799 Private, 3,129,761 }		13,068,560
Deposits	5,523,370	Bullion		6,468,060
	16,830,750	.....Rest, £2,705,870.		19,536,620
31 Aug. 1792.		31 Aug. 1792.		
Circulation . .	11,006,300	Securities { Public, 10,715,041 Private, 3,190,869 }		13,905,910
Deposits	5,526,480	Bullion		5,357,380
	16,532,780	..... Rest, £2,730,510.		19,263,290

I.

FOREIGN BANKS.

“THE *Bank of Venice* seems to have been the first banking establishment in Europe. It was founded so early as 1171, and subsisted till the subversion of the republic in 1797. It was essentially a deposit bank; and its bills bore at all times a premium or *agio* over the current money of the city.

“The *Bank of Amsterdam* was established in 1659. It was a deposit bank; and payments were made by writing off sums from the account of one individual to those of another. According to the principles on which the bank was established, it should have had at all times in its coffers bullion equal to the full amount of the claims upon it. But the directors privately lent about 10,500,000 florins to the states of Holland and Friesland. This circumstance transpired when the French invaded Holland, and caused the ruin of the bank. (See my edition of the *Wealth of Nations*, vol. ii. p. 333.) A new bank, denominated the *Bank of the Netherlands*, was established in 1814. It is formed on the model of the Bank of England; and was to enjoy for twenty-five years the exclusive privilege of issuing notes. The original capital of five millions of florins was doubled in 1819. The king holds *one-tenth* of the shares. The affairs of the bank are managed by a president, secretary, and five directors, who are chosen every six months, but may be indefinitely re-elected.

“The *Bank of Hamburg* is a deposit bank, and its affairs are managed according to a system that ensures the fullest publicity. It receives no deposits in coin, but only in bullion of a certain degree of fineness. It charges itself with the bullion at the rate of 442 schillings the mark, and issues it at the rate of 444 schillings; being a charge of $\frac{2}{3}$ ths, or nearly $\frac{1}{2}$ per cent for its retention. It advances money on jewels to $\frac{2}{3}$ ths of their value. The city is answerable for all pledges deposited with the bank; they may be sold by auction, if they remain a year and six

weeks without any interest being paid. If the value be not claimed within three years, it is forfeited to the poor. The Bank of Hamburg is universally admitted to be one of the best managed in Europe.

“The *Bank of France* was founded in 1803. The exclusive privilege of issuing notes payable to bearer was granted to it for forty years. The capital of the bank consisted at first of 45,000,000 fr., but it was subsequently increased to 90,000,000 fr., divided into 90,000 shares or *actions* of 1,000 fr. each. Of these shares, 67,900 are in the hands of the public; 22,100, being purchased up by the bank, form part of her capital. The notes issued by the bank are for 1,000 and 500 fr. The dividend varies from 4 to 5 per cent; and there is, besides, a *reserve* retained from the profits, which is vested in the 5 per cents. A bonus of 200 fr. a share was paid out of this reserve to the shareholders in 1820. The reserve in possession of the bank in 1828, amounted to 6,623,000 fr. No bills are discounted that have more than three months to run. The customary rate of discount is 4 per cent, but it varies according to circumstances. The discounts in 1827 amounted to 621 millions fr. The bank is obliged to open a *compte courant* for every one who requires it; and performs services for those who have such accounts, similar to those rendered by the private banks of London to their customers. She is not allowed to charge any commission upon current accounts, so that her only remuneration arises out of the use of the money placed in her hands by the individuals whose payments she makes. This branch of the business is said not to be profitable. There are about 1600 accounts current at the bank; and of the entire expenses of the establishment, amounting to about 900,000 fr. a-year, *two-thirds* are said to be incurred in this department. The bank advances money on pledges of different kinds, such as foreign coin or bullion, government or other securities, &c. It also undertakes the care of valuable articles, as plate, jewels, bills, title-deeds, &c. The charge is $\frac{1}{2}$ per cent of the value of each deposit for every period of six months or under.

“The administration of the bank is vested in a council-general of twenty members, viz. seventeen regents, and three censors, who are nominated by 200 of the principal proprietors. The king appoints the governor and deputy-governor. The first must be possessed of 150, and the latter of 50 shares. A *Compte Rendu* is annually published, and a report by the censors, which together give a very full exposition of the affairs of the bank. The institution is flourishing, and enjoys unlimited credit. (For further details with respect to the Bank of France, see *Storch, Cours d'Economie Politique*, Paris, 1823, tom. iv. pp. 168–180, and the *Comptes Rendus* of the different years.)

“Banks have also been established at Berlin, Copenhagen, Vienna, and Petersburg. Those who wish for detailed information with respect to these establishments, may consult the work of M. Storch, to which we have just referred. In the fourth volume there is an admirable account of the paper-money of the different continental states. The objects we have in view will be accomplished by laying before our readers the following details with respect to the *Commercial Bank* of Russia, established in 1818:—‘This bank receives deposits in gold and silver, foreign as well as Russian coin, and in bars and ingots. It has a department for transferring the sums deposited with it on the plan of the *Hamburgh Bank*. It discounts bills, and lends money on deposits of merchandise of Russian produce or origin. Its capital consists of 30 millions of bank-note rubles. It is administered by a governor and four directors appointed by government, and four directors elected by the commercial body of Petersburg. The property in the bank is protected against all taxation, sequestration, or attachment; and it is enacted, that subjects of countries with which Russia may be at war shall be entitled at all times to receive back their deposits without any reservation. It is also declared, that at no time shall the bank be called upon for any part of its capital to assist the government. All deposits must be made for six months at least, and be repayable at or before that period, and not be less than 500 rubles : sums so deposited

to pay $\frac{1}{4}$ per cent. The deposits, if in bars, ingots, or foreign specie, are estimated in Russian silver coin, and so registered in the attestation; and if not demanded back within 15 days of the expiration of six months, or the necessary premium paid for the prolongation, the owner loses the right of claiming his original deposit, and must take its estimated value in Russian silver coin. No bills are discounted that have less than eight days or more than six months to run. The rate of discount is 6 per cent. No interest is allowed on money deposited in the bank, unless notice be given that it will be allowed to lie for a year, and three months' notice be given of the intention to draw it out, when *six* per cent interest is allowed.' (*Kelly's Cambist*, vol. i. p. 303.) This bank has branches at Archangel, Moscow, Odessa, Riga, &c.

"The *Bank of the United States* was incorporated in 1816. Its capital is 35 millions of dollars, divided into 350,000 shares of 100 dollars each. Seven millions were subscribed by the United States, and the remaining 28 millions by individuals, companies, corporations, &c. The bank issues no note for less than five dollars; all its notes are payable in specie on demand. It discounts bills and makes advances on bullion at the rate of 6 per cent. The management is under twenty-five directors; five of whom, being holders, are annually appointed by the president of the United States. Seven directors, including the president, constitute a board.

"The principal office of the bank is in Philadelphia; but in January 1830, it had *twenty-two* subordinate offices, or branch banks, established in different parts of the Union. Subjoined is a statement of the affairs of the Bank of the United States, 1st April, 1830:—

	Dollars.
Notes discounted	32,138,270·89
Domestic bills discounted	10,506,882·54
Funded debt held by the bank	11,122,530·90
Real estate	2,891,890·75
Funds in Europe, equal to specie ..	2,789,498·54
Specie	9,043,748·97
Public deposits	8,905,501·87
Private deposits	7,704,256·87
Circulation.....	16,083,894·00

(*American Almanac for 1831*, p. 153.)

“ The establishment of the Bank of the United States has been of material service, by affording a currency of undoubted solidity, readily accepted in all parts of the Union. At the period when it was organised, nothing could be in a less satisfactory condition than the paper currency of the United States ; in fact, with the exception perhaps of England and Ireland, they have suffered more than any other country from the abuse of banking. In 1814, all the banks south and west of New England stopped payment ; and it appears, from the official returns, that in all, no fewer than 165 banks stopped payment between the 1st of January, 1811, and the 1st of July, 1830 ! Most of these banks were joint-stock companies. At present there are no strictly private banking companies in the United States. They are *all* incorporated by law, with a fixed capital, to the extent of which, in most cases, but not uniformly, the stockholders are only liable. They all issue notes of five dollars ; but the issue of notes of a lower value has been forbidden in Pennsylvania, Maryland, and Virginia. The banks of the New England States and some others are now in the habit of regularly publishing statements of their affairs ; but the insight they afford into the real situation of the banks is not nearly so great as is commonly supposed. They give the aggregate of bills discounted, and of the advances on securities, &c. ; but they convey no information as to the validity or convertibility of these bills and securities, nor with respect to many other circumstances of great importance. Those best acquainted with the state of the country and the banks, seem to be of opinion that the latter are still very defective ; an opinion from which we feel convinced that no one who investigates the subject will see any reason to dissent.

“ The following is an account of the number and capital of the banking establishments existing in the United States on the 1st of January, 1830 :—

States.	No. of Banks.	Capital.
		Dollars.
Massachusetts	66	20,420,000
Maine	18	2,050,000
New Hampshire	18	1,791,670
Vermont	10	432,625
Rhode Island	47	6,118,397
Connecticut	13	4,485,177
New York.....	37	20,083,353
New Jersey	18	2,017,009
Pennsylvania	33	14,609,963
Delaware	4	830,000
Maryland	13	6,250,495
District of Columbia	9	3,875,794
Virginia	4	5,571,100
North Carolina.....	3	3,195,000
South Carolina.....	5	4,631,000
Georgia	9	4,203,029
Louisiana	4	5,665,980
Alabama	2	643,503
Mississippi	1	950,600
Tennessee.....	1	737,817
Ohio	11	1,454,386
Michigan	1	10,000
Florida	1	75,000
	328	
Delaware	1	
	329	
Ditto	1	
	330	110,101,898

Mr. Tooke, in the course of his examination before the committee, referred to the following passages in Mr. Galatin's work on the subject of currency and banking, as confirmatory of his own views with respect to the question of publicity.

“ A great guarantee against improper management, is the obligation to make and publish annual statements of the situation of the banks. The mystery with which it was formerly thought necessary to conceal the operations of those institutions, has been one of the most prolific causes of erroneous opinions on that subject, and of mismanagement on their part. It is highly desirable that this measure should be adopted in the States, where those returns are not yet made obligatory. The annual statements of the bank of the United States, and of the bankers of all the New England States, of Pennsylvania, Virginia, Georgia, and others, to Congress, and to the States respectively, have in no instance injured any institution that was properly administered. Publicity is, in most cases, one of the best checks which can be devised ; it inspires confidence, and strengthens credit ; whilst concealment begets distrust, and often engenders unjust suspicions.”

Mr. Tooke was asked, “ (5418) Does it appear from that publication what restriction there is as to the banks issuing their own notes ?— Yes, in the following passage : ‘ In the United States all the banks issue notes of five dollars. The States of Pennsylvania, Maryland, and Virginia, and perhaps some others, have forbidden the issue of notes of a lower denomination, to the great convenience of the community, and without experiencing any of the evils which had been predicted. We have seen in Pennsylvania the chasm occasioned by that suppression instantaneously filled by silver, without the least diminution in the amount of currency. We cannot but earnestly wish that the other States may adopt a similar measure, and put an end to the circulation of the one, two, and three, dollar notes, which is of no utility but to the banks. Those small notes are, as a currency, exclusively local, and a public nuisance ; and, in case of the failure of any bank, the loss arising from

them falls most heavily on the poorest classes of the community.'

" 5419. Are any but chartered banks allowed to issue their own notes?—I believe none but chartered banks, with the exception of a single bank by Mr. Girard, a person of very high character and wealth, who has recently died.

" 5420. Are they prevented by law from issuing?—Yes, I understand they are prevented by law.

" 5421. Do you find any statement upon that subject in this publication?—Yes, there is a statement in it to the following effect: ' It is difficult to distinguish a note on demand, drawn by a private individual, from a bank-note, in countries where every individual is left at liberty to throw such notes into circulation as part of the currency. The discrimination has always been made on the continent of Europe, where it is not believed that any paper of that description has ever been permitted to be issued by any person or company not specially authorised to that effect. We are not aware that any similar general restriction exists in Great Britain, or that others are to be found there than the clause in favour of the Bank of England, which forbids banking associations to consist of more than a limited number of partners, and the late laws forbidding, except in Scotland, the issue of notes under five pounds. The same liberty seems to have originally existed in the United States, but has subsequently been restrained by their several laws to incorporated banks. A solitary exception is to be found in Mr. Steven Girard's bank, which was previously established, and which, from his great wealth, skilful caution, and personal character, is justly entitled to as much credit as any chartered bank in the United States. Congress has not, however, passed any law preventing the issue of notes by the corporation of the city of Washington, and there is still a small amount of paper in circulation issued by the State of North Carolina. In every other respect, the currency of the United States, so far as it consists of notes, is strictly confined to bank notes issued by chartered companies.' "

K.

SCOTCH BANKS.

“THE act of 1708, preventing more than six individuals from entering into a partnership for carrying on the business of banking, did not extend to Scotland. In consequence of this exemption, several banking companies, with numerous bodies of partners, have always existed in that part of the empire. The Bank of Scotland was established by act of parliament in 1695. It enjoyed, by the terms of its charter, for twenty-one years, the exclusive privilege of issuing notes in Scotland. Its original capital was only 100,000*l*. It was increased to 200,000*l*. in 1744; and now amounts to 1,500,000*l*. The partners are liable only to the amount of the shares they respectively hold.

“The Royal Bank of Scotland was established in 1727. Its original capital was 151,000*l*. At present it amounts to 1,500,000*l*.

“The British Linen Company was incorporated in 1746, for the purpose, as its name implies, of undertaking the manufacture of linen. But the views in which it originated were speedily abandoned; and it became a banking company only. Its capital amounts to 500,000*l*.

“None of the other banking companies established in Scotland are chartered associations; and the partners are jointly and individually liable, to the whole extent of their fortunes, for the debts of the firms. Some of them, such as the National Bank, the Commercial Banking Company, the Dundee Commercial Bank, the Perth Banking Company, &c. have very numerous bodies of partners. Their affairs are uniformly conducted by a board of directors, annually chosen by the shareholders.

“The Bank of Scotland began to issue one-pound notes so early as 1704; and their issue has since been continued without interruption. ‘In Scotland,’ to use the statement given in the Report of the Committee of the House of Commons of

1826, on the promissory notes of Scotland and Ireland, 'the issue of promissory notes payable to the bearer on demand, for a sum of not less than twenty shillings, has been at all times permitted by law; nor has any act been passed limiting the period for which such issue shall continue legal in that country. In England, the issue of promissory notes for a less sum than five pounds was prohibited by law from the year 1777 to the period of the Bank restriction in 1797. It has been permitted since 1797; and the permission will cease, as the law at present stands, in April 1829.'

"There have been comparatively few bankruptcies among the Scotch banks. In 1793 and 1825, when so many of the English provincial banks were swept off, there was not a single establishment in Scotland that gave way. This superior stability seems to be ascribable partly to the formation of so many banks with numerous bodies of partners, which tends to prevent any company with only a few partners, unless they are known to possess considerable fortunes, from getting paper into circulation; partly to the less risk attending the business of banking in Scotland; and partly to the facility afforded by the law of Scotland of attaching a debtor's property, whether it consist of land or movables, and making it available to the payment of his debts.

"In the Report already quoted, the last-mentioned topic is touched upon as follows:—'The general provisions of the law of Scotland bearing upon this subject are calculated to promote the solidity of banking establishments, by affording to the creditor great facilities of ascertaining the pecuniary circumstances of individual partners, and by making the private fortunes of those partners available for the discharge of the obligations of the bank with which they are connected. There is no limitation upon the number of partners of which a banking company in Scotland may consist, and, excepting in the case of the Bank of Scotland and the two chartered banks, which have very considerable capitals, the partners of all banking companies are bound jointly and severally, so that each partner is liable,

to the whole extent of his fortune, for the whole debts of the company. A creditor in Scotland is empowered to attach the real and heritable, as well as the personal estate of his debtor, for payment of personal debts, among which may be classed debts due by bills and promissory notes; and recourse may be had, for the purpose of procuring payment, to each description of property at the same time. Execution is not confined to the real property of a debtor merely during his life, but proceeds with equal effect upon that property after his decease.

“ ‘ The law relating to the establishment of records gives ready means of procuring information with respect to the real and heritable estate of which any person in Scotland may be possessed. No purchase of an estate in that country is secure until the seisine (that is, the instrument certifying that actual delivery has been given) is put on record, *nor is any mortgage effectual until the deed is in like manner recorded.*

“ ‘ In the case of conflicting pecuniary claims upon real property, the preference is not regulated by the date of the transaction, but *by the date of its record.* These records are accessible to all persons, and thus the public can with ease ascertain the effective means which a banking company possesses of discharging its obligations; and the partners in that company are enabled to determine, with tolerable accuracy, the degree of risk and responsibility to which the private property of each is exposed.’

“ All the Scotch banks receive deposits of so low a value as ten pounds, and sometimes lower, and allow interest upon them.

“ ‘ The interest,’ say the committee, ‘ allowed by the Bank upon deposits varies from time to time according to the current rate of interest which money generally bears. At present, 1826, the interest allowed upon deposits is four per cent.’ (At this moment, 1831, the interest allowed on deposits is only two or two and a half per cent.) ‘ It has been calculated that the aggregate amount of the sums deposited with the Scotch banks amounts to about twenty or twenty-one millions.’ (It is

believed to be at present, 1831, little if any thing under twenty-four millions.) ‘The precise accuracy of such an estimate cannot of course be relied on. The witness by whom it was made thought that the amount of deposits could not be less than sixteen millions, nor exceed twenty-five millions, and took an intermediate sum as the *probable amount*. Another witness, who had been connected for many years with different banks in Scotland, and has had experience of their concerns at Stirling, Edinburgh, Perth, Aberdeen, and Glasgow, stated that *more than one half of the deposits in the banks with which he had been connected were in sums from ten pounds to two hundred pounds*. Being asked what class of the community it is that makes the small deposits, he gave the following answer, from which it appears that the mode of conducting this branch of the banking business in Scotland has long given to that country many of the benefits derivable from the establishment of saving banks.

“ ‘ Question—What class of the community is it that makes the smallest deposits? Answer—They are generally the labouring classes in towns like Glasgow: in country places, like Perth and Aberdeen, it is from servants and fishermen, and that class of the community, who save small sums from their earnings, till they come to be a Bank deposit. There is now a facility for their placing money in the Provident Banks, which receive money till the deposit amounts to ten pounds. When it comes to ten pounds, it is equal to the minimum of a Bank deposit. The system of banking in Scotland is an extension of the Provident Bank system. Half-yearly or yearly those depositors come to the Bank, and add the savings of their labour, with the interest that has accrued upon the deposits from the previous half-year or year, to the principal; and in this way it goes on without being at all reduced, accumulating (at compound interest) till the depositor is able either to buy or build a house, when it comes to be one, or two, or three hundred pounds, or till he is able to commence business as a master in the line in which he has hitherto been a servant. A great part

of the depositors of the Bank are of that description, and *a great part of the most thriving of our farmers and manufacturers have arisen from such beginnings.*'

"The loans or advances made by the Scotch banks are either in the shape of discounts or upon cash credits, or, as they are more commonly termed, *cash accounts*.

"This species of account does not differ in principle from an over-drawing account at a private banker's in England. A cash credit is a credit given to an individual by a banking company for a limited sum, seldom under one hundred or two hundred pounds, upon his own security, and that of two or three individuals approved by the Bank, who become sureties for its payment. The individual who has obtained such a credit is enabled to draw the whole sum, or any part of it, when he pleases; replacing it, or portions of it, according as he finds it convenient; interest being charged upon such part only as he draws out. 'If a man borrows five thousand pounds from a private hand, besides that it is not always to be found when required, he pays interest for it whether he be using it or not. His bank credit costs him nothing, except during the moment it is of service to him; and this circumstance is of equal advantage as if he had borrowed money at a much lower rate of interest.'—HUME'S *Essay on the Balance of Trade*. This, then, is plainly one of the most commodious forms in which advances can be made. Cash credits are not, however, intended to be a *dead loan*; the main object of the banks in granting them is to get their notes circulated, and they do not grant them except to persons in business, or to those who are frequently drawing out and paying in money.

"The system of cash credits has been very well described in the Reports of the Lords' Committee of 1826, on Scotch and Irish banking. 'There is also,' say their Lordships, 'one part of their system, which is stated by all the witnesses (and, in the opinion of the committee, very justly stated) to have had the best effects upon the people of *Scotland*, and particularly upon the middling and poorer classes of society, in pro-

ducing and encouraging habits of frugality and industry. The practice referred to is that of cash credits. Any person who applies to a bank for a cash credit is called upon to produce two or more competent sureties, who are jointly bound; and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his securities, he is allowed to open a credit, and to draw upon the Bank for the whole of its amount, or for such part as his daily transactions may require. To the credit of the account he pays in such sums as he may not have occasion to use, and interest is charged or credited upon the daily balance, as the case may be. From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived to the whole community. The advantage to the banks who give these cash credits arises from the call which they continually produce for the issue of their paper, and from the opportunity which they afford for the profitable employment of part of their deposits. The banks are indeed so sensible that, in order to make this part of their business advantageous and secure, it is necessary that their cash credits should (as they express it) be frequently operated upon, that they refuse to continue them unless this implied condition be fulfilled. The total amount of their cash credits is stated by one witness to be five millions, of which the average amount advanced by the banks may be one-third.'

"The expense of a bond for a cash credit of 500*l.* is 4*l.* stamp duty, and a charge of 10*s.* 6*d.* per cent for filling it up.

"According to a demi-official return given in the Commons' Report already referred to, the total number of notes in circulation in Scotland, in the early part of 1826, amounted to 3,309,082, of which 2,079,344 were under 5*l.*, and 1,229,838 5*l.* and upwards.

"The Scotch banks draw on London at twenty days' date.

This is denominated the par of exchange between London and Edinburgh.

“ Most of the great Scotch banks, such as the Bank of Scotland, the Royal Bank, &c. have established branches in other towns, besides that where the head office is kept.

“ By the Act 9 Geo. IV. c. 65, to restrain the negotiation in England of Scotch or Irish promissory notes and bills under 5*l.*, it is enacted, that if any body politic or corporate, or person, shall, after the 5th of April, 1829, publish, utter, negotiate, or transfer, in any part of England, any promissory or other note, draft, engagement, or undertaking, payable on demand to the bearer, for any sum less than 5*l.*, purporting to have been made or issued in Scotland or Ireland, every such body politic or corporate, or person, shall forfeit for every such offence not more than 20*l.* nor less than 5*l.*

“ Nothing contained in this act applies to any draft or order drawn by any person on his or her banker, or on any person acting as such banker, for the payment of money held by such banker or person for the use of the person by whom such draft or order shall be drawn.”—M'CULLOCH'S *Commercial Dictionary*—Art. *Banks (Scotch)*.

See Table next page.

The following Table contains an Account of the Number of Banks in Scotland; the Names of the Firms or Banks; Dates of their Establishment; Places of the Head Offices; Number of Branches; Number of Partners; and the Names of their London Agents.

Extracted principally from the Appendix, p. 19, to the Commons' Report of 1826, on Scotch and Irish Banking.

	Names of Firms or Banks.	Date.	Head Office.	No. of Branches.	No. of Partners.	London Agents.
1	Bank of Scotland	1695	Edinburgh	16	Charter	Coutts and Co.
2	Royal Bank of Scotland	1727	ditto	1	ditto	Bank of England, and ditto.
3	British Linen Company	1746	ditto	27	ditto	Smith, Payne, and Co.
4	Aberdeen Banking Company	1767	Aberdeen	6	80	Glyn and Co.
5	Aberdeen Town & Country Bank	1825	ditto	4	446	Jones, Lloyd, and Co.
6	Arbroath Banking Company	1825	Arbroath	2	112	Glyn and Co.
7	Carrick and Co., or Ship Bank ..	1746	Glasgow	None	3	Smith, Payne, and Co.
8	Comm. Bank. Comp. of Scotland ..	1810	Edinburgh	31	521	Jones, Lloyd, and Co.
9	Commercial Banking Company ...	1778	Aberdeen	None	15	Kinloch and Sons.
10	Dundee Banking Company	1777	Dundee	None	61	Kinloch and Sons.
11	Dundee New Bank	1802	ditto	1	6	Ransom and Co.
12	Dundee Commercial Bank	1825	ditto	None	202	Glyn and Co.
13	Dundee Union Bank	1809	ditto	4	85	Glyn and Co.
14	Exchange and Deposit Bank	—	Edinburgh	—	1	—
15	Falkirk Banking Company	1787	Falkirk	1	5	Remington and Co.
16	Greenock Banking Company	1785	Greenock	3	14	Kay and Co.
17	Glasgow Banking Company	1809	Glasgow	1	19	Ransom and Co., Glyn and Co.
18	Hunters and Co.	1773	Ayr	3	8	Herries and Co.

	Names of Firms or Banks.	Date.	Head Office.	No. of Branches.	No. of Partners.	London Agents.
19	Leith Banking Company	1792	Leith	4	15	Barnett and Co.
20	National Bank of Scotland	1825	Edinburgh	8	1238	Glyn and Co.
21	Montrose Bank	1814	Montrose	2	97	Barclay and Co.
22	Paisley Banking Company	1783	Paisley	4	6	Smith, Payne, and Co.
23	Paisley Union Bank	1788	ditto	3	4	Glyn and Co.
24	Perth Banking Company	1766	Perth	5	147	Barclay and Co.
25	Perth Union Bank	—	ditto	—	69	Remington and Co.
26	Ramsay's, Bonar's, and Co.	1738	Edinburgh	None	8	Coutts and Co.
27	Renfrewshire Banking Company .	1802	Grenock	5	6	Kay and Co.
28	Shetland Bank	—	Lerwick	—	4	Barclay and Co.
29	Sir William Forbes and Co.	—	Edinburgh	—	7	Barclay & Co., Coutts & Co.
30	Stirling Banking Company	1777	Stirling	2	7	Kinloch and Sons.
31	Thistle Bank	1761	Glasgow	None	6	Smith, Payne, and Co.

Private Banking Companies in Edinburgh who do not issue Notes.

	Names of Firms or Banks.	Date.	Head Office.	No. of Branches.	No. of Partners.	London Agents.
	Messrs. Kinnear, Smith and Co. .	1830*	Edinburgh	None		Smith, Payne, and Co.
	Robert Allan and Son	1776	ditto	None		Bosanquet and Co.
	James Inglis and Co.		ditto	None		Bosanquet and Co.

* This firm was established last year by the junction of two long-established and highly respectable firms, Thomas Kinnear and Son and Donald Smith and Co. — *M'CULLOCH'S Com. Dict.*—*Art. Banks (Scotch).*

L.

IRISH BANKS.

“ ‘ In no country, perhaps,’ says Sir Henry Parnell, ‘ has the issuing of paper money been carried to such an injurious excess as in Ireland. A national bank was established in 1783, with similar privileges to those of the Bank of England, in respect to the restriction of more than six partners in a bank; and the injury that Ireland has sustained from the repeated failure of banks may be mainly attributed to this defective legislative regulation. Had the trade of banking been left as free in Ireland as it is in Scotland, the want of paper money that would have arisen with the progress of trade, would, in all probability, have been supplied by joint-stock companies, supported with large capitals, and governed by wise and effectual rules.

“ ‘ In 1797, when the Bank of England suspended its payments, the same privilege was extended to Ireland; and after this period the issues of the Bank of Ireland were rapidly increased. In 1797, the amount of the notes of the Bank of Ireland in circulation was 621,917*l.*; in 1810, 2,266,471*l.*; and in 1814, 2,986,999*l.*

“ ‘ These increased issues led to corresponding increased issues by the private banks, of which the number was fifty in the year 1804. The consequence of this increase of paper was a great depreciation of it; the price of bullion and guineas rose to ten per cent above the mint price; and the exchange with London became as high as 18 per cent, the par being 8½. This unfavourable exchange was afterwards corrected; not by any reduction in the issues of the Bank of Ireland, but by the depreciation of the British currency in the year 1810, when the exchange between London and Dublin settled again at about par.

“ ‘ The loss that Ireland has sustained by the failure of banks may be described in a few words. It appears by the Report of the Committee on Irish Exchanges, in 1804, that there were

at that time in Ireland fifty registered banks. Since that year, a great many more have been established ; but *the whole have failed*, one after the other, involving the country from time to time in immense distress, with the following exceptions :— first, a few that withdrew from business ; secondly, four banks in Dublin ; thirdly, three at Belfast ; and, lastly, one at Mallow. These eight banks, with the new provincial bank, and the Bank of Ireland, are the only banks now existing in Ireland.

“ ‘ In 1821, in consequence of eleven banks having failed nearly at the same time, in the preceding year, in the south of Ireland, Government succeeded in making an arrangement with the Bank of Ireland, by which joint-stock companies were allowed to be established at a distance of fifty miles (Irish) from Dublin, and the bank was permitted to increase its capital 500,000*l.* The act of 1 and 2 Geo. IV. c. 72, was founded on this agreement.

“ ‘ But ministers having omitted to repeal in this act various restrictions on the trade of banking that had been imposed by 33 Geo. II. c. 14, no new company was formed. In 1824, a party of merchants of Belfast, wishing to establish a joint-stock company, petitioned parliament for the repeal of this act of Geo. II. ; and an act was accordingly passed in that session, repealing some of the most objectionable restrictions of it (the 5 Geo. IV. c. 73).

“ ‘ In consequence of this act, the Northern Bank of Belfast was converted into a joint-stock company, with a capital of half a million, and commenced business on the 1st of January, 1825. But the remaining restrictions of 33 Geo. II., and certain provisions contained in the new acts of 1 and 2 Geo. IV. and 5 Geo. IV., obstructed the progress of this company, and they found it necessary to apply to Government to remove them ; and a bill was accordingly introduced, which would have repealed all the obnoxious clauses of the 33 Geo. II., had it not been so altered in the committee as to leave several of them in force. In 1825, the Provincial Bank of Ireland commenced business, with a capital of two millions ; and the Bank

of Ireland have of late established branches in all the principal towns in Ireland.

“ ‘ The losses that have been sustained in Ireland by abusing the power of issuing paper have been so great, that much more is necessary to be done, by way of protecting the public from future loss, than the measure proposed last session (1826) by ministers, of abolishing small notes, and the measure already adopted, of allowing joint-stock companies to be established in the interior of the country. As the main source of the evil consists in the interference of the law in creating a national bank with exclusive privileges, the first step that ought to be taken for introducing a good system into Ireland is the getting rid of such a bank, and opening the trade of banking in Dublin. The next measure should be the requiring of each bank to give security for the amount of paper that is issued ; for after the experience of the ignorance with which the Irish banks have conducted their business, and the derangement of the natural course of the trade by the long existence of the Bank of Ireland, it would be unwise to calculate upon a sound system of banking speedily supplanting that which has been established.

“ ‘ Under the circumstances in which Ireland is placed, nothing would so much contribute to her rapid improvement in wealth, as the introducing of the Scotch plan of cash credits, and of paying interest on deposits. By cash credits the capital which now exists would be rendered more efficient, and the paying of interest on small deposits would lead to habits of economy, and to the more rapid accumulation of new capital.

“ ‘ The charter of the Bank of Ireland has still to run till the year 1838 ; but as the charter of the Bank of England expires in 1833, unless measures are taken for getting rid of that of the Bank of Ireland in 1833, each part of the United Kingdom will, after that year, have a separate system of banking.’— (*Observations on Paper Money, &c.*, by Sir Henry Parnell, pp. 171–177.)

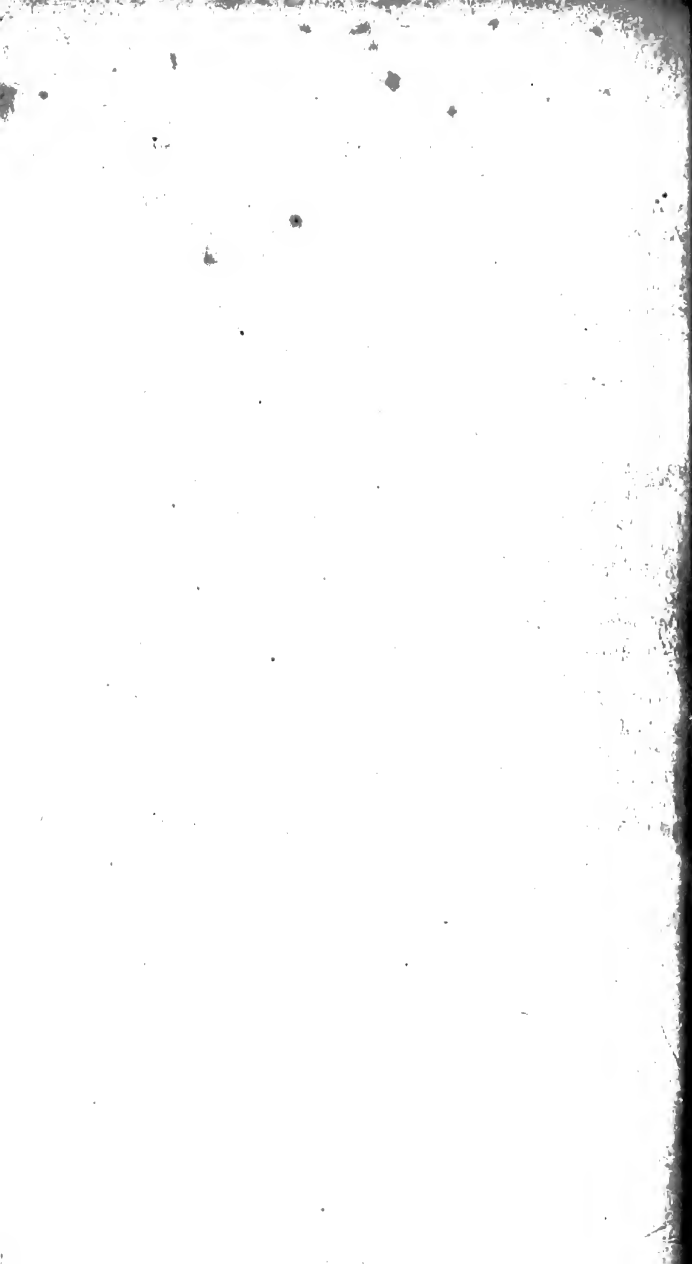
“ The capital of the Bank of Ireland, at its establishment in 1783, amounted to 600,000*l.* ; but it has been increased at

various periods; and has, since 1821, amounted to 3,000,000*l.* At present, no bank having more than six partners can be established any where within fifty Irish miles of Dublin; nor is any such bank allowed to draw bills upon Dublin for less than 50*l.*, or at a shorter date than six months. This enactment seems to amount to a virtual prohibition of the drawing of such bills. The Bank of Ireland draws on London at twenty days' date. She neither grants cash credits, nor allows any interest on deposits. She discounts at the rate of 5*l.* per cent.

“The Provincial Bank and the Northern Banking Company grant cash credits, and allow interest on deposits.

“It appears, from the statements given in the Report of the Commons' Committee of 1826, that the average value of the notes and post-bills of the Bank of Ireland of 5*l.* and upwards in circulation, during the five years ending with 1825, amounted to 3,646,660*l.* Irish currency; and that the average value of the notes and post-bills under 5*l.* in circulation during the same period amounted to 1,643,828*l.* Irish currency. The average value of the notes of all descriptions issued by the other banking establishments in Ireland, in 1825, amounted to 1,192,886*l.*

“In 1828, the currency of Ireland was assimilated to that of Great Britain. Previously to that period, the currency of the former was $8\frac{1}{3}$ per cent less valuable than that of the latter.”—M'CULLOCH'S *Dictionary of Commerce*—Art. *Banks (Irish)*.



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